

**Liberal Prayers:  
The ANC, COSATU, and the IFIs in Post-Apartheid South Africa**

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**Senior Honors Thesis: International Studies**

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**April 2006**

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*“...And yet the time at which free enterprise was showing itself in an unnaturally harsh form, was the very time in which economists were most lavish in their praises of it. This was partly because they saw clearly...the cruelty of the yoke of custom and rigid ordinance which it had displaced... But partly also it was that the productive forces which free enterprise was giving to the nation were the only means by which it could offer a successful resistance to Napoleon. Economists therefore treated free enterprise not indeed as an unmixed good, but as a less evil than such regulation as was practicable at the time.”*

*-Alfred Marshall, Principals of Economics, 1890*

*“Now is the time for workers to forcefully claim the ANC as their own. Today, the ANC has become the most contested organisation in the world. Now is the time to state unequivocally that we want to make the ANC in our own image, recognizing that elements of capital outside and within the ANC will struggle bitterly to steal our organisation for themselves.”*

*- Zwelinzima Vavi, Secretary-General of COSATU, 9/28/05*

## Introduction

Upon release from prison in February 1990, Nelson Mandela delivered a series of speeches that will be remembered as some of the more inspiring moments in South African history. The future president devoted much energy to thanking and urging on the members of the liberation movement and its international supporters. Yet he also touched upon his vision for the future of South African public policy. In the political sphere, these included dreams of democracy, of institutional equity, and of healing the rifts that threatened to rent South Africa apart in bloodshed and chaos. But in economic policy, the African National Congress's aims were decidedly radical:

The nationalization of the banks, and the mines, and the major industries is the policy of the ANC. Any change to this policy is unthinkable.<sup>1</sup>

These were particularly bold statements at a time when much of the international, or at least western, policy-making community had eschewed nationalization and committed itself to reducing the influence of the state in the economy. At the same time, the European communist bloc was collapsing. A vaguely socialist program had been favored by those involved in the modern South African liberation movement since its genesis in the 1950's. It called for redistribution of wealth from those who had benefited from apartheid to those oppressed by it, the control of South Africa's abundant natural resources by the state, and the role of the state as guarantor of full employment.

The National Party, the architects and operators of the apartheid machinery, had long tried to inculcate fear of the *rooi gevhaar* (red danger) in order to deflect criticism of its pernicious activities.<sup>2</sup> By the late 1980's, the National Party and its sympathizers faced a number of formidable physical and ideological opponents in the

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<sup>1</sup> Mandela, Nelson. Address: Cape Town, February 23, 1990.

<sup>2</sup> Thompson, Leonard. *A History of South Africa*. New Haven: Yale University Press, 1997. p. 378

liberation movement. Chief among these were the Congress of South African Trade Unions (COSATU) and its intellectual sister, the South African Communist Party (SACP). These two organizations did much to define ANC economic thinking during the waning days of apartheid. Since 1994 they have constituted, along with the ANC, the Tripartite Alliance. The ANC acts as the spearhead of the alliance, with COSATU and the SACP as junior partners, ostensibly to assist in the management of the economy. This coalition has governed South Africa since liberation. By the early 1990's, COSATU and the SACP had built a seemingly robust statist consensus within the liberation movement. And yet, it would take less than five years for this policy concord to be unraveled.

The basic political objectives of the South African revolution were relatively simple, if difficult to achieve: to deracialize South African society, to grant equal liberties to all citizens under a constitutional democratic government, and to earn South Africa a respected place in the community of nations. The economic objectives of the movement could not be articulated as cleanly or as gracefully. In their earliest incarnations, they appeared relatively consistent: redress of the inequality caused and perpetuated by the apartheid regime, an interventionist state, and a weakening of white monopoly capital. More than 10 years later, the picture is much more complicated, replete with internal contradiction and strife.

On September 27, 2000, South African Finance Minister Trevor Manuel stood up to deliver the closing speech at the IMF- World Bank joint meetings in Prague. The cautious and respected minister closed the tense 2000 meetings to applause, hailing progress from his position as chair-by-invitation of the joint meetings of the Bretton Woods institutions.

The South African state had traveled a great distance, from a place where foreigners avoided its leaders to one where its official was invited to preside over the conference of the world's great financial bodies. From pariah to darling. By the turn of the millennium, the leaders of the ANC had ingratiated themselves with the international financial community through economic policy reform. ANC leaders

guided policy away from the socialist push of the early 1990's, first toward a neo-Keynesian program, and finally toward an orientation broadly in line with the western neoliberal consensus of the end of the 20<sup>th</sup> century.

This thesis examines a set of institutional relationships that have heavily influenced the trajectory of these changes: those among the largest International Financial Institutions (the IMF and the World Bank), the African National Congress (ANC), and the Congress of South African Trade Unions (COSATU). The aim of this study is to analyze the interaction of the ruling party of South Africa, the international financial community, and the South African labor movement.<sup>3</sup>

The IMF and the World Bank represent the intellectual vanguard of international finance, especially with regard to developing countries. This is not to say that the IFIs are entirely beholden to the interests of private finance or of developed states; in some respects the aforementioned players look to the IFIs for guidance. There is a great amount of give-and-take between the IFIs, states, private finance, and academia (as well as movement of personnel between these spheres). Certainly, there are moments at which developed countries, particularly the United States, force the IFI's to implement very specific policies. However, at no point since 1994 have developed countries concerned themselves with South Africa to this degree. In South Africa, the Bretton Woods institutions act with relative independence.

Since the 1970's, the IFIs have increasingly charged themselves with tasks of surveillance and acting as counselors (and often more like managers) to developing nations.<sup>4</sup> This is particularly true of South Africa, which the IFIs have seen as a country in transition that could greatly benefit from their guidance.

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<sup>3</sup> In order to simplify this nebulous system of relationships, specific institutions must serve as proxies for the greater world financial community and for the South African labor movement. The IFIs will serve as the former and COSATU as the latter, for reasons enumerated on pages 3 and 4.

<sup>4</sup> See Helleiner, Eric. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990's* Ithaca: Cornell University Press, 1994.

Why was this so? After all, murmurs were already being heard in the halls of the IMF that perhaps the heavy-handed structural adjustment medicine administered in the 1980's and early 1990's had been a mistake. Davison Budhoo, a former IMF and World Bank economist who had recently left the institutions, commented in 1989 that:

President Reagan effectively told us to go out and make the Third World a new bastion of free wheeling capitalism, and how we responded with joy and with a sense of mission! ... Everything we did from 1983 onward was based on our new sense of mission to have the south 'privatized' or die; toward this end we ignominiously created economic bedlam in Latin America and Africa In 1983-88.<sup>5</sup>

Yet, as will be evident below, IFI officials believed South Africa to be uniquely positioned to benefit from liberalization. The post-apartheid government inherited relatively well developed infrastructure and a heavy, if outdated, industrial base. Low-wage labor was abundant. Compared to countries at similar income levels, South Africa had an exceptionally capital intensive economy, indicating that apartheid policies had prevented labor from being employed as it might have been in more stable circumstances: in low-wage, labor intensive, export-oriented production. The IFIs saw themselves as positioned to be the facilitators of a transition toward a more 'natural' economic structure in South Africa. This would allow it to reach full employment, enter a track of export-led-growth, and 'climb the value ladder'.<sup>6</sup> In

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<sup>5</sup> Budhoo, Davison. Quoted in: Nasser, Alan. "The Tendency to Privatize" *Monthly Review* 54:6 (March 2003);

<sup>6</sup> The only states that have achieved such 'virtuous' pattern of growth during the last 50 years have been 'developmental states', which have developed behind constantly shifting trade barriers and heavily interventionist tactics by the state.

See, for instance:

Wade, Robert. *Governing the Market*. Princeton University Press: 1990.

Chang, Ha-Joon. *Kicking Away the Ladder: Development Strategy in Historical Perspective* London: Anthem Press, 2002

Stiglitz, Joseph, and Andrew Charlton. *Fair Trade: How Trade can Promote Development* Oxford University Press: 2005

short, the developmental doctrine accepted in the IFIs during the 1990's and early in this decade led the institutions to believe in a fundamental need for liberalization in South Africa.

COSATU is South Africa's largest and most powerful labor federation, and is the only one directly allied with the ANC. It is therefore the part of the labor movement with both the greatest impact on policy and the most to gain or lose through reform. As such, it is the only part of the labor movement dealt with below.

The SACP has largely ceased to function as an effective political body, although there is some overlap in personnel between it and COSATU/ the ANC.<sup>7</sup> During much of the apartheid, it was an intellectual force that weighed strongly on the economic outlook of the liberation movement. Many of the top ANC freedom fighters were members of the SACP during their time in exile. However, as the moment of liberation approached, the SACP's more radical members were marginalized by a coalition of more ideologically supple ANC and COSATU leaders.<sup>8</sup> For many involved in the 'struggle', Marxism only went skin deep, while yearning for African liberation struck to the core. Although the SACP is technically a member of the Tripartite Alliance, it had already become a weak member by the early 1990's. It will not be discussed below at much length

It is not the express object of this essay to make judgment upon the changes in South African economic policy since 1994. Sufficient time has not elapsed since the launch of certain measures, notably GEAR, in order to make empirically based judgments. Rather, I will investigate the way in which policy has reflected and

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<sup>7</sup> McKinley, Dale. "The End of Innocence: The Alliance and the Left" *South African Labour Bulletin* 25:1 (January 2001)

<sup>8</sup> While the SACP was, and is, considered a radical organization, most of its members had ceased to embrace theories of historical Marxism by the late 1980's. Instead of believing in the ultimate fate of society to be that of proletarian revolt, the SACP proposed large-scale (but not necessarily complete) nationalization and redistribution;

Nash, Andrew. "The Moment of Western Marxism in South Africa" in Bramble, Thomas, and Franco Barchiesi, eds. *Rethinking the Labour Movement in the New South Africa* London: Ashgate, 2003.

affected the relationship between the three sets of institutions mentioned above. Some critical analysis of specific policies is necessary in order to fully understand these interactions. This paper will provide multiple examples in which the ANC pursued or is pursuing measures that both adhere to western norms as embodied by the IFIs and also negatively affect COSATU.<sup>9</sup>

This thesis begins with the claim that the changes in government economic policy since 1994 have marginalized COSATU. The questions explored are then as follows: How did transformation inside the ANC occur? Why did the ANC make a ‘right turn’ after 1995? How has COSATU responded? How have the IFIs affected ANC preferences? And, most importantly: why have they done so?

There are two principal institutional elements to the changes that have occurred since the advent of democracy. First, the intellectual leaders of the ANC have consistently and vigorously embraced economic strategy based on a liberal paradigm. These principals have been the same as those espoused by the IFIs; at the moment of their implementation, the reforms examined below were considered pivotal and essential by the Bretton Woods institutions. I do not claim that the ANC was duped or inordinately pressured by international elites. The IFIs simply did not, and do not possess the leverage on Pretoria to issue credible threats. Nor have the IFIs coerced or completely managed to buy off (although they have tried) the elites of the South African government. Instead, the ANC *bought in* to the so-called consensus of the late 20<sup>th</sup> century western world. It did so voluntarily, energetically, and earnestly. The recent history South Africa testifies to the persuasive power of the liberal creed, and to the elegance with which it simplifies the bewildering set of personal, power, econo-rational, ethnic, and random effects that define the international economy.

It also speaks to the explanatory role of institutional structure and composition in predicting policy outcomes. COSATU has proven itself incapable of reversing the

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<sup>9</sup> I do not aim to normatively condemn ANC or IFI sponsored policy in broad strokes. But exposition of the failing of certain policies is pivotal to the arguments below.

ANC's move to the right. At certain points, the unions have dampened or arrested it, but they have not succeeded in turning the tide. COSATU has not led a counter-revolution because of its institutional weakness. The ANC has exploited this weakness, this dearth of expertise, of resources, and of organizational capacity. The ANC has confounded the unions with adroit philosophical posturing, while COASATU has lost much of its intellectual muscle to the ANC and to the private sector since liberation.

A most puzzling question then remains. Why, in the face of protestation by its largest ally and broad domestic discord, especially among the poor blacks that the ANC battled so fervently for, has the ANC proceeded along this path? I hold that ANC policy has serially reflected not only the general philosophy of the IFIs, but also their specific, and sometimes ephemeral, interests. I come to this conclusion through inductive reasoning, as the series of cases below will elucidate the perplexing reflection of IFI preoccupations in Pretoria. Why, then, has this been so?

The attraction that economic orthodoxy holds for the ANC must stem from at least one, and likely both, of two sources. In the first instance, the ANC believes that earning the approval of the IFIs will lead to increased interest in South Africa by foreign investors. For better or for worse, international investors treat the IFIs as interpreters of policy signals.<sup>10</sup> South Africa, largely isolated from foreign markets at the end of apartheid, has placed great (but, in fairness, not exclusive) faith in foreign direct investment to boost both growth and employment. COSATU, distrustful of multinational corporations and sometimes cognizant of the holes in an approach reliant upon fickle foreigners, has been wary of such a strategy.

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<sup>10</sup> This is particularly true in the case of Latin American and African countries, where the IFIs have been particularly active during the last two decades. Investors look to the Bretton Woods institutions (in addition to other private actors, such as credit rating agencies) for analysis of investment prospects.

As of yet, the foreign investment upon which the ANC's hopes have largely rested has not materialized.<sup>11</sup> So, is there something else inherently attractive about adherence to western orthodoxy?

The ANC stepped out of the shadow of apartheid with a desire to establish the new South Africa as a leader among African nations, among developing nations, and among all the nations of the world. Did the liberation party's leaders bring too a desire to establish themselves as members of an international elite? Ambition to enter elite circles cannot easily be divorced from desire to improve investor perceptions. The two can be mutually reinforcing; perhaps, in the case of South Africa, a country with strong cultural ties to Europe, native elites believed that ingratiating themselves with their western counterparts would spur investment and growth. ANC leaders have been discreet enough to remain mum on this subject, and one can only speculate about their true motives. But their stubborn defense of an investor-oriented program in the face of domestic discontent and less-than-stellar results stirs the suspicion that such considerations influence policy.

The past ten years have witnessed progressively worsening strain within the Tripartite Alliance. In contrast, the post-apartheid period began with a series of measures that solidified the labor-ANC coalition. The Government of National Unity (GNU), the administration that entered office in 1994, unveiled its first comprehensive economic program, the Reconstruction and Development Programme (RDP), in the same year. The RDP represented the combined efforts of COSATU, SACP, and ANC officials. It was universally regarded as a victory for workers, the poor, and progressive intellectual elements.<sup>12</sup> Furthermore, in the mid and late 1990's,

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<sup>11</sup> In the late 1990's, GEAR did not fundamentally alter investor's perceptions despite the supposed credibility boost it gave the South African state, loosening of capital controls has brought little long term investment, and privatization has been a failure. It appears that the ANC may yet make another push, this time to advantage employers, and hopefully the unemployed, through labor law reform.

<sup>12</sup> Lodge, Tom. *Politics in South Africa: From Mandela to Mbeki* Bloomington, IN: University of Indiana Press. 2003. p. 54

COSATU-sponsored legislation rendered South Africa one of the friendliest states vis-à-vis workers in the developing world (assuming that they are employed, and many of them are not).<sup>13</sup>

But the tide had begun to turn by mid-1995. The last decade has witnessed an assault, *ad seriatim*, on measures favorable to labor. This trend has not affected all facets of policy; the ANC has exhibited a certain schizophrenia. This has been particularly true since President Mbeki took office in 1999. The ANC's control of economic policy levers then strengthened significantly, at the expense of both labor and the formerly NP-led bureaucracy.<sup>14</sup> Recently, the government has made motions to relax the self-imposed fiscal austerity of the late 1990's, has shown renewed cautiousness about capital account openness, and has backed off of rapid privatization plans. It has also moved recently to embrace industrial policy, a move that expressly contradicts the wishes of the IFIs. Two policy threads are visible; one neoliberal, and one that has evinced certain aspects of a 'developmental state'.<sup>15</sup>

However, the liberal strain of policy has been dominant since 1995 (if slightly less so during the past three years). In this thesis, four sequential examples will elucidate this trend. These are: capital account liberalization; the Growth, Employment, and Redistribution (GEAR) program of 1996; privatization of state assets and services in the late 1990's and early 2000's; and the current debate about labor market reform.

These are very prescient examples, as none of these policies can yet be deemed successful. South Africa probably dropped its capital controls prematurely, focused too much upon macroeconomic stability as stipulated by GEAR, entered without valid reason into contracts with private water firms, and may now be preparing to make a revamped labor regime the centerpiece of its pro-employment

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<sup>13</sup> Southall, Robert. "Marginalisation: Can COSATU rely on the Alliance?" *South African Labour Bulletin* 25:3 (June 2001)

<sup>14</sup> Lodge, Tom. *Politics in South Africa: From Mandela to Mbeki* Bloomington, IN: University of Indiana Press. 2003 p. 66

<sup>15</sup> The latter includes the Motor Vehicle Industry Development Programme, which is explored in Chapter 8.

strategy. The deficiencies in these strategies further attest to the ANC's loyalty to orthodox policy.

None of the institutions written about below should be seen as monolithic. COSATU, compared to the ANC, and especially compared with the Bretton Woods sisters, is a 'weak' institution. Due to its roots in the combative atmosphere of late-apartheid labor relations and to the withholding of educational resources from blacks by the apartheid regime, it suffers from a dearth of intellectual muscle. To be certain, some of its leaders fully understand the ramifications of policy decisions. Nonetheless, in certain instances, COSATU has proven incapable of providing direction, leaving spaces to be exploited by rightward-leaning members of the ANC (the best example being that of monetary policy).

Neither are the IFIs juggernauts with inalterable preferences. They are not composed of 'knee-jerk neoliberals', as some critics claim. The policy interests and positions of the IFIs vis-à-vis South Africa have changed significantly since the mid-1990's. In an interview with the author, Dr. Trevor Alleyne, an economist working in the IMF's South Africa department from 1998-2000, admitted that the Fund had misjudged the proper speed of capital account opening in South Africa during the mid to late 1990's.<sup>16</sup>

The ANC itself is composed of various and shifting factions; it has not been easy for ANC leaders to convince the rank-and-file of the value of the liberal ethos. Indeed, it may soon attempt to deflect criticism with a state-led industrial strategy (although this is not likely the only reason for the move). Finance Minister Manuel, one of the ANC officials at the forefront of the withdrawal from *étatisme* and the embrace of neoliberal precepts, cautioned the IMF and World Bank at the close of the 2000 meetings to "guard against [a] one-size-fits-all [approach]."<sup>17</sup> Ironically, Manuel had already implemented strategies that belied a belief in such a universal consensus.

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<sup>16</sup> Alleyne, Trevor. Interview with the author: Washington DC, March 15, 2006.

<sup>17</sup> Manuel, Trevor. Address to the Joint Meetings of the World Bank and IMF. Prague, September 27, 2000.

The success of classical liberalism (or a revamped version thereof) during the last half century and, indeed, during the last 200 years, has led scholars of as great notoriety as Francis Fukuyama to designate liberal capitalism as the rational end point to a dialectical historical process.<sup>18</sup> While many historians, political scientists, and other observers strongly criticized this conclusion from an empirical and a philosophical standpoint, the spread of liberal economic values, particularly among elites, has been astonishing.<sup>19</sup> South Africa fits well within this wider picture. In fact, it is a particularly instructive case, due to the peculiar nature of the South African economy, of the interplay between it and the political transition to democracy, and of the legacy bequeathed to the liberation leaders. One might argue that South Africa is uniquely unsuited to the application of neoliberalism. It relies greatly, although decreasingly, on natural resource exports, produces chronically at a level below its potential capacity, and requires political calculations in economic decision making that render simple investment choices complex and compromise the quantitative methods of neoclassical models. Furthermore, its labor movement's position remains closely tied to its role in the liberation struggle. Yet, even against this unfavorable backdrop, liberalism has largely prevailed since 1994.

This thesis proceeds in the following manner:

Chapter 2 recaps the pre and post 1994 events that have shaped the current atmosphere in which the three institutional actors (IFIs, COSATU, and the ANC) find themselves. It briefly chronicles the transition from apartheid to democracy, paying particular attention to the economic complications therein. It also discusses the structure of the South African economy and the performance of key measures such as growth and unemployment.

Chapter 3 contextualizes the role of each of the three relevant institutional forces. It describes COSATU's structure and changing role within the Tripartite

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<sup>18</sup> Fukuyama, Francis. *The End of History and the Last Man*. New York: Perennial, 1992.

<sup>19</sup> See: Blyth, Mark. *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* Cambridge University Press: 2002.

Alliance, and provides a brief history of the ANC's leadership and activities in the post-apartheid period. It also relays key moments in the IFIs' relationship with South Africa, briefly tracing the evolution of the institutions' role in the late apartheid and early democratic periods.

In chapter 4 begins the case-based analysis, with a look at the Reconstruction and Development Programme, the first broad post-apartheid economic plan. The RDP's release is the final event preceding the 'rightward' shift in orientation. It is also the last moment at which the overall economic thrust evinces consideration of COSATU's concerns. The ANC rose to power on a platform expressly designed to reverse the evils of apartheid. In the early period of its rule, policy reflected that preoccupation.

With chapter 5 commences the series of cases in which the ANC indulges the concerns of international powers, marginalizing COSATU in the process. This progression starts with reforms that seemed relatively innocuous: the liberalization of capital controls, beginning in 1995 with the abolition of the 'dual rand' currency system. Consultation on matters of currency is one of the chief functions of the IFIs, and they played a principal role in these events. Ignored initially by COSATU, these reforms led ultimately to grave consequences for labor.

The loosening of capital controls opened the door to those in favor of a neoliberal program, and helped to turn the ANC toward such ideas. Chapter 6 describes the Growth, Employment, and Redistribution Programme (GEAR), a neoliberal adjustment program *par-excellence*.<sup>20</sup> GEAR caught COSATU by surprise, and the union movement has not since regained the position that it held before its implementation.

Chapter 7 traces the debate over privatization in South Africa, specifically examining the case of municipal water services privatization. In this area, the IFIs played an exceptionally aggressive role. The Bretton Woods twins, taking a

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<sup>20</sup> Taylor, Ian. *Stuck in Middle GEAR: South Africa's Post-Apartheid Foreign Relations* London: Praeger, 2001. p. 79

temporarily inordinate interest in water services privatization, saw their ideas tested in a number of experiments in South Africa, all of which failed.

The final chapter brings us to the present. Recent signals indicate that the ANC is preparing to step onto labor's sacred ground, that of labor market regulation. Renewed debate in Pretoria again coincides with a crescendo of rising interest in Washington. After proving itself fiscally responsible, responsive to investors, and having exhausted options for privatization, the ANC may be preparing for another round of reforms. If it is, its alliance with COSATU may not survive.

## **Chapter II**

### **History and the South African Economy**

#### **A. The End of Apartheid**

On December 1, 1985, in a context of unrest that threatened to degenerate into civil war, a number of individual trade unions and loose union federations officially allied and became COSATU. The National Party (NP) had not yet unbanned the ANC, and Nelson Mandela still languished at Robben Island prison. In 1979, the Weihahn commission, an NP appointed advisory body, counseled then Prime Minister Botha to permit africans (blacks) to form trade unions, so as to avoid the wildcat strikes that characterized the mid-1970's.<sup>21</sup> COSATU quickly became a nexus of trade union and more general liberation movement activity. COSATU events became anti-apartheid rallies, and much both non-violent and armed organizing took place within the COSATU and FOSATU structures.<sup>22</sup>

In 1983, a group with wide-ranging affiliations, including students, clergy, and workers, launched the United Democratic Front. During the mid 1980's the civil society-based UDF acted as the intellectual and organizational center of the liberation movement inside the country. However, by 1988, as the moment of Mandela's release approached, COSATU had become the movement's vanguard.<sup>23</sup> The african labor movement channeled its burgeoning political capacity toward the broader struggle. COSATU thus ceased to be a traditional trade union, transforming into a 'Social Movement Union'.<sup>24</sup>

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<sup>21</sup> Worden, Nigel. *The Making of Modern South Africa* Oxford: Blackwell Publishing, 1994. p. 123

<sup>22</sup> FOSATU is the Federation of South African Trade Unions. Today, it is much smaller than COSATU, with a membership of approximately 400,000, as opposed to COSATU's 2 million.

<sup>23</sup> Von Holdt, Karl. *Transition from Below: Forging Trade Unionism and Workplace Change in South Africa* Scottsville, South Africa: University of Kwazulu-Natal Press, 2003. p. 23

<sup>24</sup> An SMU is defined as a union that both 'encourages mass mobilization of members' for issues not directly related to labor, and 'pursues broader social objectives' more generally;

Shortly after the new National Party Prime Minister F.W. De Klerk succumbed to internal and international pressure to unban the ANC, a Mandela craze swept South Africa. The nearly boundless charisma of the future president and his party overshadowed COSATU's travails during the preceding five years.<sup>25</sup> Worship of the long-imprisoned Mandela reached a messianic proportion, even among workers. In the late 1980's at the Highveld Steel complex, a site of concerted COSATU activity against the apartheid workplace, COSATU shopstewards refused to negotiate with their managers for days on end, demanding that the bosses "release Mandela first."<sup>26</sup>

On February 11, 1990, authorities released Mandela from house arrest. According to historian Leonard Thompson, the De Klerk government had no initial intention to dismantle any appreciable portion of the apartheid structure. Certainly, they did not intend to usher in majority black rule. Rather, the NP planned to repeal certain apartheid measures, such as some of the pass laws and the support for the fictitiously independent "Bantustans", and would agree to grant local governing powers to black townships. They wanted to ensure, however, that no black majority ever sat in a national parliament and that capital remained in white hands.<sup>27</sup> They failed in the former respect. Twelve years later, they can arguably claim success in the latter.

Mandela, along with deputies such as Thabo Mbeki and one of labor's future champions, Jacob Zuma, quickly deflated the National Party's fantasy. The ANC had all but sealed an end to apartheid by 1992, although observers feared a slide into

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Bramble, Tom. "Social Movement Unionism Since the Fall of Apartheid: The Case of NUMSA on the East Rand" in Thomas Bramble and Franco Barchiesi, eds. *Rethinking the Labour Movement in the New South Africa* London: Ashgate, 2003. p. 187

<sup>25</sup> Thompson, Leonard. *A History of South Africa* New Haven: Yale University Press, 1997. p. 412

<sup>26</sup> Von Holdt, Karl. *Transition from Below: Forging Trade Unionism and Workplace Change in South Africa* Scottsville, South Africa: University of Kwazulu-Natal Press, 2003. p. 183

<sup>27</sup> Thompson, Leonard. *A History of South Africa* New Haven: Yale University Press, 1997 p. 418

further violence, and possibly a fully fledged war.<sup>28</sup> Fortunately, the ANC and the NP, with substantial assistance from the international community, diffused tensions to such a degree that South Africa could hold its first democratic election in April, 1994. The ANC then came to power.

With the ANC came its alliance partners, COSATU and the SACP. Each initially provided a significant amount of intellectual muscle to the ANC administration, which was largely comprised of exiled leaders not yet acclimated to a South Africa that had changed so much during their time abroad.<sup>29</sup> South African labor believed that its time had come, and the first administration released the Reconstruction and Development Programme (RDP) and a slew of labor friendly laws. After this brief period, however, labor's power would diminish.

## B. Fundamental Aspects of the South African Economy

Perhaps more than any other factor, more than the explosion of violence among blacks and between blacks and security forces in the townships, more than the condemnation of South Africa by the African and western world, the collapse of the apartheid economy heralded the end of white rule.<sup>30</sup> According to Chris Stals, the National Party-appointed South African Reserve Bank Governor, in 1989:

If adequate progress is not made in the field of political and constitutional reform...South Africa will remain a capital exporting and debt repaying

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<sup>28</sup> Worden, Nigel. *The Making of Modern South Africa* Oxford: Blackwell Publishing, 1994. p. 121

<sup>29</sup> At this moment, COSATU's and the SACP's intellectual pedigrees were strong. The SACP would see so many defections in the aftermath of the 1994 elections that it would be almost irrelevant to the alliance by 1996. COSATU, too, would lose some of its sharpest minds and best organizers. Some took government posts, others went into private business.

<sup>30</sup> Worden, Nigel. *The Making of Modern South Africa* Oxford: Blackwell Publishing, 1994. p. 137

country for years...and the standard of living for South Africans will, at best, rise only slowly.<sup>31</sup>

While this may sound mild when contrasted with the harsh rhetoric of the early 1990's among both black and white political leaders, it is a remarkably strident remark considering its attribution to an Afrikaner economist (and one that would remain as head of the Reserve Bank during Mandela's presidential term, for reasons directly related to the IFIs). Afrikaner capital had been one of the primary beneficiaries of apartheid policies, which aimed not only to maintain a reserve of cheap black labor, but to target Afrikaner business interests with special incentives and subsidies. The successes of the 1950's, 60's, and early 70's, when South Africa pursued a relatively fruitful Import Substitution Industrialization policy, coupled with periodic mining booms that brought windfall profits,<sup>32</sup> had evaporated. The corporatist (when considering Afrikaans speakers) system of *Volkskapitalisme* foundered.<sup>33</sup> Perhaps uniquely among such cases in recent history, the sanctions levied on South Africa in the 1980's effectively pressured the government into democratic reform.<sup>34</sup>

## 1. Growth

The Government of National Unity inherited an economic disaster. In 1980, at the tail end of the sharpest nominal gold price boom of the 20<sup>th</sup> century, South Africa's GDP/capita was approximately R24000 (in 2004 rand), or \$3700. In 1994 it

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<sup>31</sup> Terreblanche, Sampie and Nicoli Nattrass. "A Periodization of the Political Economy". In N. Nattrass and E. Ardington, eds. *The Political Economy of South Africa* Oxford University Press: 1990. p. 23

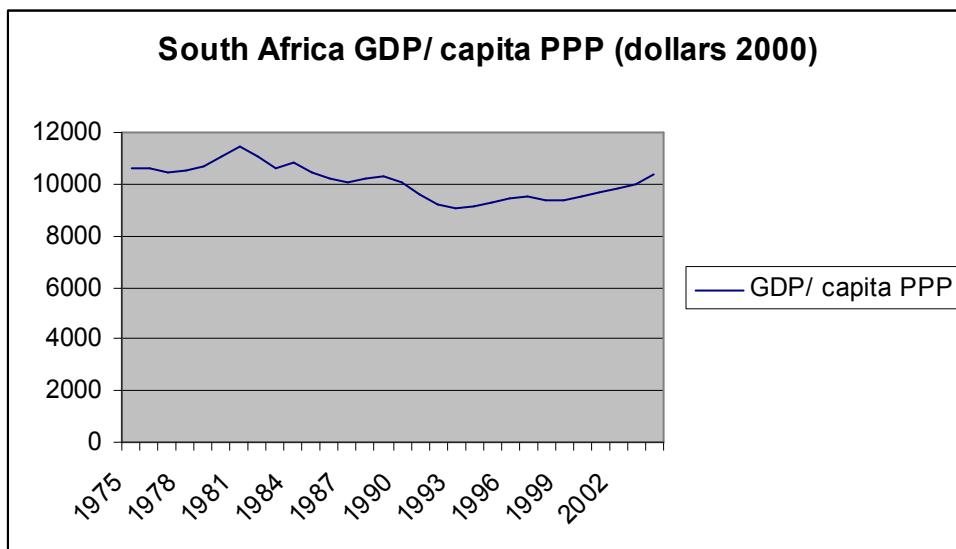
<sup>32</sup> The reinvestment of profits was often domestic, as capital controls made capital export difficult and unprofitable.

<sup>33</sup> Taylor, Ian. *Stuck in Middle GEAR: South Africa's Post-Apartheid Foreign Relations* London: Praeger, 2001. p. 48

<sup>34</sup> Bruggemanns, Cees. *Change of Pace: South Africa's Economic Revival*. Johannesburg: Witwatersrand University Press, 2003. p. 24

was R20500 (\$3150). Income disparity between whites, the wealthiest group, and africans, the poorest, was, and is, vast. In 1975, whites ‘earned’ approximately R70000 (\$10800) per capita, while blacks were paid a paltry R6300 (less than \$1000). By 1994, that differential had narrowed slightly, with white incomes 8.6 times larger than black incomes (as opposed to 10.9 times in 1975).<sup>35</sup> This relative level of disparity has remained nearly constant since 1994, narrowing slightly during the past three years.<sup>36</sup>

During the 1960’s, apartheid’s “golden decade” (literally), the South African economy grew at an average of 5.7% annually. During the 1980’s, it grew at 1.5% annually, and per capita income fell due to an acceleration of population growth. Between 1990 and 1993, the economy contracted at rate of negative 0.4%/year while the population exploded. Meanwhile, central government debt ballooned from 36% of annual GDP in 1990 to 50% by 1994.



<sup>35</sup> Feinstein, Charles, *An Economic History of South Africa: Conquest, Discrimination, and Development* Cambridge University Press: 2005. p. 11

<sup>36</sup> Van der Berg, Servass, Ronelle Burger, Rulof Berger, Megan Louw, and Derek Yu. “Trends in Poverty and Inequality Since the Political Transition” *University of Stellenbosch Department of Economics Working Papers 2005:1* Stellenbosch: 2005

Concurrently, the National Party rounded out its rule with a defiantly irresponsible spending spree. Public deficit spiraled to over 9% of annual GDP during 1993.<sup>37</sup> The motivations behind this profligacy were twofold. In the first instance, defense expenditures rose during the unrest that characterized apartheid's last years, a time when growth and tax revenues suffered greatly due to protest-related non-payment in the townships and homelands. Secondly, the NP, which had built a bloated bureaucracy as an employment safety net for Afrikaners (and they used it: by 1990, 50% of working Afrikaner males drew public salaries)<sup>38</sup>, doubled, tripled, or quadrupled contributions to the public pension fund.<sup>39</sup> The apartheid regime spitefully saddled the GNU with debt.

Since liberation, the economy has experienced both growth and contraction, and has not lived up to the expectations of most South Africans for the nascent democracy's success. A period of relative investor euphoria followed the peaceful conclusion of the 1994 elections.<sup>40</sup> Per capita GDP growth became positive between 1994 and 1996. It then suffered a reversal between 1996 and 2001, before recovering again.<sup>41</sup> In 1998, South Africa registered a decline in GDP per head of -1.8%. In 2004, the first year in which growth approached the government's expectations, GDP per capita grew at just over 4%.<sup>42</sup>

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<sup>37</sup> International Monetary Fund *South Africa: 2004 Article IV Consultation* (Washington DC: 2004);

Typically, deficits had run at about 3% of GDP during the 1960's, 70's and early 80's.

<sup>38</sup> Posel, Deborah. "The Politics of Patronage: A Case Study of the Apartheid Civil Service" in: Glenn Adler, ed. *Public Service Labour Relations in a Democratic South Africa*. Johannesburg: Witwatersrand University Press, 2000. p. 48

<sup>39</sup> Taylor, Ian. *Stuck in Middle GEAR: South Africa's Post-Apartheid Foreign Relations* London: Praeger, 2001. p. 37

<sup>40</sup> Bruggemann, Cees. *Change of Pace: South Africa's Economic Revival*. Johannesburg: Witwatersrand University Press, 2003. p. 65

<sup>41</sup> World Bank Development Indicators

<sup>42</sup> World Bank Development Indicators

The South African economy is characterized by a disjuncture that President Mbeki refers to as that of the ‘first’ and the ‘second’ economies.<sup>43</sup> While one out of every four South Africans experience hunger at some point during each month,<sup>44</sup> the Johannesburg financial markets are as sophisticated as any mid-size European bourse.<sup>45</sup> The Johannesburg Securities Exchange ranks 12<sup>th</sup> worldwide in overall capitalization, even after Anglo American and De Beers, the two largest mining consortia, delisted in the late 1990’s.<sup>46</sup> South Africa’s GINI coefficient (a statistical measure of inequality), hovers around 0.6, as high as that of Brazil.<sup>47</sup> Only 11 million South Africans, out of a population of 46 million, are employed in the formal sector.<sup>48</sup> Surprisingly, it appears that informal employment in South Africa does not account for any substantial portion of the officially unemployed, as it is does in countries with comparably high rates of unemployment, such as Brazil.<sup>49</sup>

The South African economy therefore operates at two speeds. It appears that the ‘second’ economy, largely rural and with high rates of indigence, remains stagnant despite the efforts of the ANC to provide basic services in the post-apartheid period. This economy does not interact very closely with the labor movement, which primarily represents formally employed urban workers.

In 1998, GDP per capita hit a local trough of negative 1.8% and positive .5% in overall GDP growth. The dramatic dive in South Africa’s growth rate in 1998, as well as those of 1996/7 and 2001, can be partially attributed to the currency crisis of that year. The 1998 crisis originated in Southeast Asia in late 1997 and spread as a contagion, causing investors to pull out of developing economies regardless of their individual fundamentals.

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<sup>43</sup> *Sunday Times* “The road to prosperity” Johannesburg: December 7, 2003.

<sup>44</sup> Statistics South Africa *Labor Force Survey- 2003*

<sup>45</sup> *Financial Mail* “Sampie Terreblanche: The Californian Life” Johannesburg: February 14, 2003.

<sup>46</sup> Irving, Jacqueline. “Africa’s Struggling Stock Exchanges” *United Nations: Africa Recovery Journal* 12:1 (February 2002)

<sup>47</sup> World Bank Development Indicators

<sup>48</sup> International Monetary Fund, *South Africa: 2004 Article IV Consultation: Selected Issues* (Washington DC: 2004)

<sup>49</sup> Ibid. International Monetary Fund.

## **2. Unemployment**

Today, South Africa's official unemployment rate stands at 27%, one of the highest rates in the world.<sup>50</sup> COSATU's chief economist, Neva Makgleta, estimates that unemployment is really over 40%, if one accounts for 'discouraged' workers.<sup>51</sup> ANC Finance Minister Trevor Manuel directly rebuffed Makgleta's claim recently by stating that "if we really had an unemployment rate of 40%, there would have been a revolution by now."<sup>52</sup> However, the long-serving Manuel's deputy, Jabu Moleketi, admitted in October 2005 that the government believed unemployment to be as high as Makgleta's estimation.<sup>53</sup>

Notwithstanding debate about the exact rate, mass unemployment constitutes perhaps the gravest problem for South Africa after HIV/AIDS. The economy has proven unable to absorb most of its young people during the past 15 years. According to Statistics South Africa (the public statistical service), over 50% of active members of the population between 15 and 24 are unemployed, as are 33% of 25 to 34 year olds. The figure for 45 to 54 year olds is only 5%, although this count likely excludes a large number of discouraged workers.<sup>54</sup> Not surprisingly, spreads among workers of different races are staggering. Unemployment among whites has hovered between 4 and 8% in the post-apartheid period, while african unemployment has consistently topped 30%, and indians and coloureds have found themselves in between.<sup>55</sup>

## **C. A Creature of Apartheid**

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<sup>50</sup> South African Reserve Bank: Quarterly Bulletins

<sup>51</sup> *Mail and Guardian* "COSATU Questions Jobs Claim" Johannesburg: November 4, 2005.

<sup>52</sup> *African Research Bulletin* 42:3 "South Africa: 'Job Loss Bloodbath'" (April 2005)

<sup>53</sup> Boyle, Brendan. "Manuel Labouring his Point" *Sunday Times* Johannesburg: October 10, 2005.

<sup>54</sup> International Monetary Fund, *South Africa: 2004 Article IV Consultation: Selected Issues* (Washington DC: 2004)

<sup>55</sup> Statistics South Africa *Profile: South African Unemployment 2004*

Apartheid left South Africa with a legacy of deep structural problems. These continue to be the primary obstacles to growth and higher rates of employment.<sup>56</sup> The apartheid pass laws denied most africans (blacks) the privilege of residing in the major cities, although some were permitted to live in township hostels as guest workers. The National Party designed and then strongly promoted the ‘homelands’, which functioned as african labor reserves largely destitute of internal economic activity. Millions of South Africans find themselves living today either in these former ‘Bantustans’ or in townships demarcated by apartheid administrators. The township residents often live so far from nodes of economic activity that they must commute long distances to reach the fringes of industrial or commercial areas.

The disparities in productive capacity between regions that benefited from white capital investment and those that primarily encapsulate the old homelands are staggering. In 2004, 1324 ‘large’ private businesses were headquartered in Gauteng, which encompasses Johannesburg and Pretoria. Limpopo, a province with a population 60% the size of Gauteng’s, counted only 29 such businesses.<sup>57</sup> Gauteng is the traditional heartland of white-financed industry and services. Most of Limpopo’s residents live in areas formerly designated as ‘homelands’.

Little progress has been made since 1994 on alleviating these spatial inequities. Some observers do not acknowledge that the persistently high rate of structural unemployment should be attributed to the legacy of apartheid. The ANC, which stresses the racial unity of South Africa, has tempered its anti-white rhetoric since the advent of democracy. One of the unforeseen consequences of this, however, has been that the ANC has pursued economic policies that have not focused sufficiently on the spatial and educational consequences of apartheid.

The IFIs and the international financial community, while certainly recognizing these issues, often fail to comprehend their pivotal nature. The ANC has

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<sup>56</sup> This is despite that many observers, including the IFIs at certain points, prefer to look at causes that are not uniquely South African but similar to those affecting other countries in vaguely comparable positions.

<sup>57</sup> South Africa Department of Labour *Employment Equity Analysis Report 2004*

been chided to look away from apartheid distortions, confusing a cleansing process with an overeager search for external solutions to internal problems. COSATU, which itself has not articulated an exceptionally coherent economic philosophy, has allowed this ANC and IFI failure to adversely affect its position within the governing alliance.

#### D. The Current Political Context

The Tripartite Alliance today operates within a context of a disaffected COSATU and an ANC exhibiting flagrancy in disregard of COSATU preferences. The SACP plays at the margins, if at all. There has long been present within COSATU a faction that had favored splintering from the ANC and founding a workers party. In 1993, the National Union of Metal Workers of South Africa (NUMSA), a COSATU member union, proposed that the federation end its alliance with the ANC in the aftermath of the 1994 election.<sup>58</sup> Rumors frequently circulate that a majority of COSATU members would support a split from the ANC. The sources of these rumors are not clear; polls routinely find low percentages of confederation members in favor of such a schism. Roger Southall, a professor of Political Science at Rhodes University, estimates that “there is very little support for the formation of a worker’s party.”<sup>59</sup> Nevertheless, the presence of such a faction complicates an already strained alliance.

The current environment is also one of increasingly public agitation among workers. The year 2004 saw the most industrial action in terms of man-hours lost since 2001, the year of the massive anti-privatization stay-aways.<sup>60</sup> Many COSATU member unions have partaken in strikes in the past year. These include the National Union of Mineworkers (NUM) strike at the Aflease company gold fields (wage

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<sup>58</sup> Mckinley, Dale. “COSATU and the Tripartite Alliance since 1994”. In: Thomas Bramble and Franco Barchiesi, eds. *Rethinking the Labour Movement in the New South Africa*. London: Ashgate, 2003. p. 43

<sup>59</sup> Southall, Robert “Marginalisation: Can COSATU rely on the Alliance?” *South African Labour Bulletin* 25:3 (June 2001)

<sup>60</sup> South Africa Department of Labour *Industrial Action Report: 2004*

dispute), a series of strikes by NUM at Harmony Gold (to protest retrenchments), and a united COSATU stay-away in June meant to demonstrate frustration that “economic growth has not benefited workers”, according to COSATU president Willie Madisha.<sup>61</sup>

The popularity on which the ANC rode to historic victory in 1994 has not waned. In 2004, the ANC received more than 70% of the vote in both national parliamentary and presidential elections. The 2006 municipal election saw the ‘party of liberation’ slip slightly, while still dominating its opponents with about 2/3 of the vote. Thabo Mbeki was sworn in for a second five year term in 2004, and the party is currently in the process of debating choices for his successor.

One man who may not be considered is Jacob Zuma. A former ANC exile based for years in Swaziland and Mozambique, Zuma became Deputy Secretary-General of the ANC in 1991. In 1999 he became Thabo Mbeki’s Deputy President, and was consequently regarded as Mbeki’s heir.<sup>62</sup> Organized african labor knows Zuma as the most labor friendly official in the top echelon of government.<sup>63</sup> A charismatic speaker, able administrator, and deft operator, Zuma was also one of the four members of Mandela’s original cabinet to have fought with *Umkhonto We Sizwe* (Spear of the Nation), the ANC’s armed branch of the struggle years. Thus he has formidable apartheid-era credentials and extensive post-apartheid experience.

On October 11, 2005, Zuma was arraigned in Durban on charges of corruption, stemming from his relationship with his financial advisor. Mbeki axed him from the position of Deputy President in the summer of 2005, after prosecutors accused Zuma of wrongdoing. Mbeki then appointed the then Minister of Minerals and Energy, Ms. Phumzile Mlambo-Ngcuka, to the office vacated by Zuma. Observers do not consider Mlambo-Ngcuka a probable presidential candidate.

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<sup>61</sup> Madisha, Willie. “What this Week’s Worker Action is All About” *Sunday Times* Johannesburg: June 26, 2005.

<sup>62</sup> Lodge, Tom. *Politics in South Africa: From Mandela to Mbeki* Bloomington, IN: University of Indiana Press. 2003. p. 254

<sup>63</sup> *Mail and Guardian* “COSATU Out of Step” Johannesburg: August 19, 2005.

COSATU leaders and other Zuma supporters have cried foul, especially after a rape charge was added to his list of headaches (and for which the trial has already opened). COSATU, in a number of public statements, has accused the ANC of making Zuma the victim of an anti-labor witch hunt, intended to bring forces opposed to the neoliberal bent of South African policy to heel. COSATU has also stated that the defense of Zuma should be an opportunity to stand up to its alliance partner. According to COSATU Secretary-General Zwelinzima Vavi, when interviewed in October 2005 outside the Durban courthouse in which Zuma was being arraigned:

COSATU doesn't regret for one moment taking the stance that it did throughout the [Zuma] saga... [If we had not], Zuma would have been thrown to the lions like so many others before him.<sup>64</sup>

These are strong recriminations considering that they come from the leader of a union movement technically allied to the ANC. Zuma himself commands a large personal support base. Over one thousand people, calling themselves 'The Friends of Jacob Zuma', stood outside the Durban courthouse on October 11, chanting "Zuma, my president, my president!"<sup>65</sup>

South Africa's recent economic and political history has been tumultuous, even if it pales in comparison to the late apartheid period. Meager progress in economic recovery and reconstruction on non-racial lines has exacerbated the tensions already rising within the alliance due to the ANC's move to the right. Before moving on to that story, however, the positions of COSATU, the ANC, and the IFIs in South Africa should be examined in greater depth.

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<sup>64</sup> *Business Day* "State Given Four Weeks to Conclude Zuma probe" Johannesburg: October, 11, 2005;

Panic has seized certain elements of COSATU as Zuma's presidential prospects have plummeted. The labor movement counted upon Zuma to save them from the ANC-organized neoliberal policy. It is difficult to predict how events will play out; Zuma still harbors presidential ambitions, and he remains immensely popular.

<sup>65</sup> *Business Day* "State Given Four Weeks to Conclude Zuma probe" Johannesburg: October, 11, 2005

## **Chapter III**

### **Three Institutions**

#### **A. COSATU**

COSATU, the only South Africa labor federation with a voice in government, is comprised of 21 member unions, with a total of 1.8 million paid-up workers. An additional 200,000 are registered as members. The largest unions in the confederation are the National Union of Mineworkers (NUM)- 300,000 members, the National Allied Health and Education Workers Union (NEHAWU)- 234,000 members, the South African Democratic Teachers Unions (SADTU)- 214,000 members, the National Union of Metal Workers of South Africa (NUMSA)- 144,000 members, the South African State and Allied Workers Union (SASAWU)- 144,000 members, and the South African Municipal Workers Union (SAMWU)- 115,000 members.

The Confederation's structure comprises of a small number of secretariat officers at headquarters in Johannesburg, as well as officers in each province. COSATU itself does not employ a large number of officials; the weight of both representing and coordinating the organization falls on a rather small number of people. As COSATU's position will be later contrasted with the IFIs, institutions with almost limitless capacity compared to that of COSATU, this becomes one of the major constraints facing the unions within an already asymmetrical relationship.

Coordination between COSATU central and regional offices, let alone COSATU and its members, is weak and tenuous. While members do not commit to industrial action without approval from above, different levels of the organization do not engage in ideological discussion as effectively as might be expected. For instance, COSATU, due to a repositioning that began during the early 1990's, does not envision South Africa becoming a Marxist state in the foreseeable future.<sup>66</sup> And yet,

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<sup>66</sup> Lehulere, Oupa. "The Road to the Right: COSATU Economic Policy in the Post-Apartheid Period". In: Thomas Bramble and Franco Barchiesi, eds. *Rethinking the Labour Movement in the New South Africa*. London: Ashgate, 2003. p. 31

according to a 2001 article in the *South African Labour Bulletin* by Dumisa Ntuli, a NUMSA officer:

NUMSA remains fully committed to the establishment of socialism in South Africa, where workers will fully control the means of production.<sup>67</sup>

The COSATU leadership core has remained relatively stable since the mid 1990's. Zwelinzima Vavi, the current Secretary-General, served as Deputy Secretary-General from 1993-1999 and as chief organizer of the NUM in the late 1980's and early 1990's. In a twist that presages the difficultly that COSATU would have contesting the ANC-led liberal revolution, Vavi did not attend school until his late teens.<sup>68</sup> As Secretary-General, Vavi is the day-to-day chief of COSATU operations. Willie Madisha is president of COSATU. He arrived on the national stage through the South African Democratic Teachers Union, and also served in the SACP in a variety of capacities. With a background in teaching, Madisha is responsible for high-level discussions within the Tripartite Alliance. However, Vavi himself has represented COSATU in several high profile international fora, including the December 1999 WTO meetings in Seattle.

External pressures and temptations have further contributed to the weakening of COSATU's intellectual and organizational capacity. At the moment of the 1994 elections, 60 COSATU officials, representing well over half of the total officials on the national payroll, left the organization to accept positions in Pretoria or in the regional legislatures. Many of the organization's brightest stars left for positions in business. For example, James Motlatsi, the fiery former Secretary-General of the NUM, eventually took an executive position with the Anglo American mega-conglomerate. Member unions have suffered the same loss of talent at the shopsteward level. Clever employers are partially to blame for this. In order to fulfill

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<sup>67</sup> Ntuli, Dumisa. "The VWSA saga; NUMSA's stance" In: *South African Labour Bulletin* 25:3 (June 2001)

<sup>68</sup> COSATU website [www.cosatu.org.za](http://www.cosatu.org.za)

the requirements of the Black Economic Empowerment acts, employers often choose the most energetic shop stewards in their plants and offer to outsource to them a piece of their business.<sup>69</sup>

In order to rectify these potentially fatal problems, COSATU must expand its financial capacity. In 1994, COSATU paid its national staffers (except for a select few leaders), R1800/ month (~ \$500/ month). Many of these charismatic organizers were confronted with private industry or even ANC jobs offering two to three times that remuneration.<sup>70</sup> COSATU has also demonstrated little ability to balance its books. In 2003, the COSATU treasurer discovered financial loses of over R50 million (\$8 million), chalked up to the failure of member unions to pay their dues. This resulted in measures such as the restriction of photocopy paper use at the Johannesburg headquarters and the cutting of telephone lines at provincial offices.<sup>71</sup> By contrast, the World Bank spent \$900 million worldwide on internal expenses (salaries, facility upkeep, travel, etc.) between June 2003 and June 2004.<sup>72</sup>

Ideologically, COSATU remains somewhat schizophrenic. Different union leaders and COSATU central leaders often espouse conflicting views. However, there has emerged a pattern since 1990. Between 1990 and 1992, COSATU did not deviate from a socialist line. Between 1993 and 1996, the federation embraced a neo-Keynesian ideology. Finally, after 1996, COSATU entered a period of confused rhetoric, where it tacitly accepted many of the ANC's liberal prescriptions while vociferously contesting others.<sup>73</sup> This progression will be further explored below.

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<sup>69</sup> Bramble, Tom. "Social Movement Unionism Since the Fall of Apartheid: The Case of NUMSA on the East Rand" Thomas Bramble and Franco Barchiesi, eds. *Rethinking the Labour Movement in the New South Africa*. London: Ashgate, 2003. p. 198

<sup>70</sup> Buhlungu, Sakhela. "The Big Brain Drain: Union Officials in the 1990's" *South African Labour Bulletin* 18:2 (April 1994)

<sup>71</sup> Sechaba ka Nkosi. "COSATU Hit by R50 Million Loss" *Sunday Times* April 13, 2003.

<sup>72</sup> World Bank *Summary of Internal Financial Audit* (Washington DC: 2004)

<sup>73</sup> Bond, Patrick. *Talk Left, Walk Right: South Africa's Frustrated Global Reform*. Scottsville, South Africa: University of Kwazulu-Natal Press, 2004. ; Lehlere, Oupa. "The Road to the Right: COSATU Economic Policy in the Post-Apartheid Period". In: Thomas Bramble and Franco Barchiesi, eds. *Rethinking the Labour Movement in the New South Africa*. London: Ashgate, 2003.

## B. The ANC

Within South Africa's borders, no political force disputes the power of the ANC. The opposition Democratic Alliance (DA), a patchwork of Afrikaans-speaking coloured formations, smaller Anglophone white parties, and bits of the former NP, does not effectively contest ANC rule outside of the DA stronghold of Western Cape. The Inkatha Freedom Party, a Zulu patronage network whose influence barely extends outside of Kwazulu-Natal, constitutes the only other major force.

As the 1990's drew on, Mandela delegated more and more of the everyday party responsibilities to Thabo Mbeki. Many of the ministers in the current government are part of Mbeki's network, and are "unlikely to rock the Mbeki boat."<sup>74</sup> Mbeki now controls a fairly disciplined party.<sup>75</sup>

Most of the current ANC leaders were raised on a socialist ideology. In the 1950's, mirroring the socialist bent of most African anti-colonial discourse, Mandela called South Africa a case of "monopoly-capitalist-fascism gone mad."<sup>76</sup> Many such attitudes survived the next 40 years, while ANC leaders often operated from communist-sponsored camps in Angola and Mozambique. However, with the return of the ANC to South Africa in 1990, the organization became aware that proclaiming itself a socialist movement would lead to an impasse in negotiations with the white government and would mar its all-important relationship with the west, particularly Thatcher's and then Major's Britain. By the early 1990's, its commitment to Marxism had weakened to point where distancing itself entirely from leftist rhetoric presented little problem.

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<sup>74</sup> Lodge, Tom. *Politics in South Africa: From Mandela to Mbeki* Bloomington, IN: University of Indiana Press. 2003. p. 244

<sup>75</sup> Opponents accuse the party of authoritarian tendencies; the ANC has never experienced a contested election, so it is difficult to predict its reaction. Nevertheless, the ANC's penchants for top-down decision making will figure prominently in the debates below, especially concerning GEAR.

<sup>76</sup> Ibid. Lodge. p. 9

The ANC stood in 1994 on an economic platform based on the RDP, a neo-Keynesian social-democratic document. However, ANC leaders underwent a dramatic transformation during the 1990's. According to historian Thomas Lodge, "the Mbeki government has been better for business than any of its predecessors for a very long time, [including apartheid administrations]."<sup>77</sup>

### C. The IFIs in South Africa

In the World Bank's 1999 Country Assessment Study, the Bank states that: "in South Africa, the bank has piloted the idea of working as a 'knowledge bank'."<sup>78</sup> This meant that, although the Bank would not be heavily involved in loan or other financial operations in South Africa, it would focus on its other role, that of a research body. It was no coincidence that the Bank chose South Africa as the proving ground for this experiment; the unique climate in which the Bank became reinvolved with South Africa in the early 1990's provided the appropriate context. A World Bank official boasted in 1994 that "South Africa is the only country in the world in which we talk to the opposition."<sup>79</sup> The question then becomes: how did the World Bank (and its sister institution, the IMF) mould such an environment in South Africa?

Between 1966 and 1990, the World Bank's Pretoria office was dormant; the Bank heeded international pressure in 1966 to desist in lending to Henrik Verwoerd's *pure et dure* apartheid administration. Before 1966, the bank had funded a number of infrastructure projects in partnership with South African parastatals Eskom (electricity) and Telkom (communication). More egregiously, however, the IMF continued to lend to South Africa during most of the apartheid period. In 1981, the Fund lent PW Botha's government \$1.1 Billion. The Fund stopped only after the US

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<sup>77</sup> Lodge, Tom. *Politics in South Africa: From Mandela to Mbeki* Bloomington, IN: University of Indiana Press. 2003. p. 28

<sup>78</sup> World Bank *Country Assistance Strategy: South Africa* ( Washington DC: Publication #19665, 1999)

<sup>79</sup> Taylor, Ian. *Stuck in Middle GEAR: South Africa's Post-Apartheid Foreign Relations* London: Praeger, 2001. p. 66

Congress passed the Gramm Bill, which forbade (upon penalty of congress withholding future recapitalization funds) lending to South Africa unless approved by the US House Banking Committee in order to “reduce apartheid distortions.”<sup>80</sup>

Worse perhaps was the World Bank’s involvement in the Lesotho Highlands Water Project, beginning in 1986. Throughout the colonial and apartheid periods, South Africa ensured that the tribal monarchy of Lesotho did not escape client status.<sup>81</sup> Since 2000, South African troops have interfered multiple times in Lesotho’s internal politics. South Africa takes particular interest in Lesotho because of the contribution of the Lesotho Highlands Water Project to the water-poor Rand (West Rand, East Rand, and Witwatersrand (Johannesburg metro area)). The Bank provided most of the funding for this project knowing fully that it would be used primarily to provide water to white customers in Johannesburg.<sup>82</sup>

The primary risk listed in the Bank’s documentation was that Pretoria, not Lesotho, would default on the debts incurred in constructing the network of dams.<sup>83</sup> Pretoria had, through creative accounting, insured the loan without it appearing that the Bank had operated in South Africa. Today, already strapped consumers in Gauteng province (the province that overlays the area of the old Rand) subsidize the operation of the overbuilt dam network.<sup>84</sup>

By the late 1980’s, the IMF had reestablished full ties with a ‘liberalizing’ National Party. Stanley Fischer, the then IMF chief economist infamous for his role in the Structural Adjustment policies of the 1980’s and 1990’s, is a Cape Town native. In the early 1990’s, he led a number of missions to South Africa. He was received warmly by National Party officials, but less so by skeptical blacks.<sup>85</sup>

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<sup>80</sup> Kahn, Brian. “IMF Reform: Debates in South Africa” *South African Labour Bulletin* 25:3 (June 2001)

<sup>81</sup> *Africa Analysis* 19:1 “Lesotho: The Search for ‘White Gold’” (January 1999)

<sup>82</sup> Township municipalities were so resource starved that black residents often relied on unsafe water supplies.

<sup>83</sup> Bond, Patrick, *Against Global Apartheid: South Africa Meets the World Bank, IMF, and International Finance* University of Cape Town Press, 2003. p. 64

<sup>84</sup> Ibid. Bond. p. 64

<sup>85</sup> Ibid. Bond. p. 55

The World Bank sent a reconnaissance mission to South Africa in the immediate aftermath of Mandela's release in 1990. The ANC, suspicious of an institution that they had observed using heavy-handed tactics in Zambia, Zimbabwe, Mozambique, and other Southern African countries, was initially loath to meet with the Bank's delegation. However, after the Bank agreed not to lend to the De Klerk government and repeatedly feted ANC leaders in Washington, relations warmed. By the late 1990's, they would become decidedly bubbly. When Tito Mboweni was Minister of Labour in the late 1990's, he refused to meet with IMF delegations. But when he ascended to the Governorship of the Reserve Bank in 1999, the former labor leader flew to Washington for a fortnight long introduction to the world of central banking and international finance at the World Bank and IMF. It cannot, then, have been a personal aversion to meeting with IFI officials, but political concerns that prevented him from going to Washington during his time at the Department of Labour.

In the Bank's 1999 South Africa Country Assessment Study, an occasional document that the Bank considers its "most important country specific document", the Bank warns that its "analytical assistance in South Africa" is "complicated by the political sensitivity of Bank/South African relations."<sup>86</sup> The Bank still treads very lightly in South Africa. Nonetheless, the IFIs have proven themselves adept at defending their privileged position against their detractors, among them COSATU.

By the early 1990's, a transformation was taking place within the ANC. This would be the change that stewarded the ANC onto a neoliberal path. Observers often cite the ANC's singularity in being a liberation movement that talked about fiscal discipline before it took power. While labor and social-democratic interests would celebrate the RDP, the first post-apartheid economic program, the seeds had already been planted of change in a different direction.

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<sup>86</sup> World Bank *Country Assistance Strategy: South Africa* ( Washington DC: Publication #19665, 1999)

## **Chapter IV**

### **The RDP: Labor's Short Lived Victory**

At the 2001 World Economic Forum in Davos, Switzerland, George Soros quipped that “today, South Africa is very much in the hands of international capital.”<sup>87</sup> While the indefatigable Soros is not necessarily an expert on South African affairs, he could feel comfortable speaking with conviction on this matter. By 2001, South Africa had implemented a neoliberal economic program, opened itself to virtually unrestricted capital flows, privatized portions of its largest utilities, and pursued investor-friendly fiscal and monetary policies for six years running. The question is then: how did this occur? Or, more specifically: how did a party elected on the platform of the Reconstruction and Development Programme remake itself as a liberal darling?

The RDP was the manifestation of the aspirations of COSATU and others who advocated that South Africa confront its economic history head-on. However, one cannot claim that the RDP did not pay tribute to many of the accepted, tried-and-true aspects of the late 20<sup>th</sup> century western policy consensus. It explicitly advocates fiscal and monetary discipline. It also eschews Import Substitution Industrialization strategies in favor of a more outward looking industry restructuring, implicitly stating that tariffs and other import restrictions would decrease under the tutelage of the newly formed RDP ministry.<sup>88</sup> The subject of nationalization is treated very tenderly in the RDP document. Neither is there mention of renegotiation of land-leases from the state to the mining conglomerates, about which there had been discussion in the ANC and COSATU during the preceding five years. The RDP did not set the alarm bells ringing in Washington; both the Bank and the Fund came out initially in favor of the document.

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<sup>87</sup> Soros, George. Remarks at the World Economic Forum. Davos, Switzerland: January 30, 2001.

<sup>88</sup> Government of National Unity (South Africa) *Reconstruction and Development Programme White Paper* Pretoria: September 11, 1994.

Nonetheless, the RDP represented a victory for labor and labor's allies in the ANC over South African business interests and the contemporary orthodoxy of economic policy. Over the protestations of the (NP holdover) Finance Minister Derek Keys, South African Reserve Bank Governor Chris Stals (also of the old regime) and others, the more africanist and left-leaning elements among the RDP's drafters even managed to include a direct snub to the IFIs.<sup>89</sup> Among those who demanded that the comments remain in the document was Alec Erwin, the white COSATU organizer who would later be seduced into overseeing some of the largest state privatization efforts from his perch as Minister of the Department of Public Enterprises. The RDP White Paper reads:

The pressures of the world economy and the operations of international organizations such as the IMF, the World Bank, and GATT... have pressured [our neighbors in Southern Africa] into implementing programs with adverse effects on employment and standards of living...We must reduce our reliance on International Financial Institutions.<sup>90</sup>

At that moment, South Africa did not, in fact, rely unduly on international institutions for funding; the only major debt incurred by South Africa to an IFI in the 1990's up to that point was a 1993 loan of \$850 million from the IMF. While the rationale for requesting the loan was somewhat dubious (the official line being that it was required in order to cushion balance of payments irregularities resulting from a drought, even though the drought had ended as long as six months before), the conditions attached were by no means draconian. They included reducing the fiscal deficit to below 8% of GDP, quite reasonable given the unsustainability of 1993's deficit of 9.5%, and curtailment of public sector wages and pension payments, which had skyrocketed as the NP hastened to line the pockets of its loyalists before leaving power. The insistence of labor and the SACP that a decidedly anti-IFI statement remain in the

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<sup>89</sup> Bond, Patrick, *Against Global Apartheid: South Africa Meets the World Bank, IMF, and International Finance* University of Cape Town Press, 2003. p. 9

<sup>90</sup> Government of National Unity (South Africa) *Reconstruction and Development Programme White Paper* Pretoria: September 11, 1994.

RDP therefore demonstrates some of the animosity harbored by black South Africans toward the institutions.

The RDP, a document worded in terms understandable to lay-people, calls broadly for redistribution of resources in the post-apartheid period, job training, labor-friendly legislation, new housing, subsidized services, and scores of other progressive measures.<sup>91</sup> Its recommendations and stipulations cover most broad areas of economic reform, including extension of municipal services, pension reform, healthcare reform, restructuring of the public sector, investment in transport, creation of jobs through public works projects, and provision of credit for community banking in underserved areas. It also lays the groundwork for further legislation, including a new set of labor regulations. The RDP states that:

Industrial bargaining forums or industrial councils must play an important role in the implementation of the RDP. Agreements negotiated in such forums should be extended through legislation to all workplaces in that industry. There must be enhanced jurisdiction for these forums to negotiate...<sup>92</sup>

Comments about fiscal discipline and trade openness, while present, were not central to the project. In the instances where it set numerical targets, the RDP tended to set goals for the extension of service provision. It promised one million units of new subsidized housing before 1998. To some extent, it delivered; by the year 2000, over 1.1 million new housing units had been ‘serviced’.<sup>93</sup> It also stipulated that the government strive to deliver clean water to all South African households. In 2000, the Department of Water and Forestry (DWAF) reported that over 4 million South Africans had gained access to clean water since 1994.<sup>94</sup> Nowhere did the RDP dare

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<sup>91</sup> Government of National Unity (South Africa) *Reconstruction and Development Programme White Paper* Pretoria: September 11, 1994.

<sup>92</sup> Republic of South Africa *Reconstruction and Development Programme 1994*

<sup>93</sup> Streek, Barry. “South African Housing Delivery Unsurpassed” *Mail and Guardian* Johannesburg: February 23, 2001;

Serviced often meant, however, delivering access to basic utilities, clearing a site, and then declaring it fit to be built upon. This resulted in many new districts composed of shoddy structures.

<sup>94</sup> South Africa Department of Water and Forestry *Annual Report-2001*

refer to labor market ‘inflexibility’, ‘uncompetitive wages’, or a ‘burdening’ negotiation process.

Perhaps because it appeared fresh at the fall of the apartheid regime, the RDP confronted the structural problems that apartheid bequeathed upon the ANC better than subsequent policy documents. Many of these issues and inequalities were micro and not macroeconomic in nature, and the RDP reflected that reality. It suggested that 30% of all white owned lands be redistributed to landless blacks. This recommendation echoes precisely one made by the World Bank one year earlier;<sup>95</sup> the Bank has not ignored apartheid’s legacy, but may have paid it insufficient attention.

Indeed, the IFIs have given a fair amount of advice to South Africa that contradicts neoliberal orthodoxy. For example, South African workers suffer from a low ‘real social wage’ as compared to their nominal wage. This partly represents the fact that urban South African workers, unlike their counterparts in many developing countries, often cannot rely upon rural familial networks in times of dire need to provide basic nourishment or care.<sup>96</sup> Apartheid policies tended to favor white commercial farming interests over and above other white interests, and they engendered a situation in which african farm laborers would rely on remittances from urban ‘guest’ workers while overworking marginal plots of land in the ‘Bantustans’.<sup>97</sup>

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This too comes with a qualification; a contemporary Development Bank of Southern Africa study reported that more than half of those installations had ceased to function. See: Berger, Ronelle. “What We Have Learnt from Post-1994 Innovations in Pro-Poor Service Delivery in South Africa: A Case Study Based Analysis” *Development South Africa* 22:4 Published by the Development Bank of Southern Africa. (October 2005)

<sup>95</sup> World Bank *South Africa: Paths to Economic Growth* (Washington DC: Southern Africa Department Working Paper, 1993)

<sup>96</sup> Hart, Gillian. “Clothes for Next to Nothing” *South Africa Labour Bulletin* 19:6 (December 1995)

<sup>97</sup> Feinstein, Charles, *An Economic History of South Africa: Conquest, Discrimination, and Development* Cambridge University Press: 2005. p. 242

This can be contrasted with a country such as Taiwan. Taiwan effected a large-scale land redistribution program during the mid-20<sup>th</sup> century, resulting in a rise in the ‘real-social’ wage of many urban workers, allowing industry to pay a lower nominal wage and increasing industrial competitiveness.

The World Bank and the IMF were attuned to this reality in 1994. GEAR would not do as well in recognizing these pivotal structural inequities in the South African economy.

The RDP stipulated in detail programs of investment in service provision and infrastructure, while discussing only vaguely the government's new macroeconomic policy. GEAR, the 1996 program that exposed the ANC's (and to some degree COSATU's) 'right turn', would do just the opposite. When the transitional authority handed power to the ANC-led Government of National Unity in mid-1994, Mandela named former COSATU Secretary-General Jay Naidoo the Minister of the RDP. But events may have already been moving in a different direction. Internal contradictions in the economic ideas of the ANC were already evident at the time of the RDP's release. Business had geared up to contest the new strategy, and the IFIs watched warily the implementation of the new framework. Most surprisingly, some factions in COSATU were exhibiting signs that they too might accommodate a more liberal program.<sup>98</sup>

### A. COSATU in Transition

COSATU's second conference in 1987, a ferocious gathering of leaders and young members of the burgeoning movement, produced a slew of antagonistically anti-white, anti-capitalist documents and statements. Leaders reminded the rank-and-file that their struggle was not only anti-apartheid but also pro-labor:

While we are involved in a struggle for national liberation, true liberation can only be achieved through an economic and social transformation of our society to serve the interests of the working class.<sup>99</sup>

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See: Yoo, Anthony. *The Role of Land Reform in Economic Development: A Case Study of Taiwan*. New York: Praeger, 1968.

<sup>98</sup> Lehulere, Oupa. "The Road to the Right: COSATU Economic Policy in the Post-Apartheid Period" in Bramble, Thomas, and Franco Barchiesi, eds. *Rethinking the Labour Movement in the New South Africa* London: Ashgate, 2003.

<sup>99</sup> COSATU Declaration: 2<sup>nd</sup> COSATU Congress (July 1987)

COSATU would maintain a strictly socialist outlook until 1992, when the COSATU Economic Policy Conference released its first proposal. This advocated the nationalization of certain industries under worker control and reflected the then Marxist character of the organization. COSATU hoped that its socialist program would be accepted at the time of elections over the Normative Economic Policy<sup>100</sup> sponsored by the transitional government (comprised of both NP and ANC officials at the top levels of the bureaucratic hierarchy, but operated by NP-appointed functionaries).

By 1993, however, glimpses of COSATU's acceptance of more 'mainstream' western economic policy were on display. COSATU endorsed and became heavily involved in the work of the ANC's Macroeconomic Research Group (MERG). The report of the MERG group has COSATU performing a rhetorical *volte-face*; where its 1992 report demanded the nationalization of the 'commanding heights' of the economy, the MERG report states that "if the private sector is prepared to address inequalities of human resource development, the private sector will be handsomely rewarded."<sup>101</sup> The MERG report would be drawn upon heavily during the drafting of the RDP.

The MERG drafting process also saw the first evidence of COSATU's willingness to defer to the ANC on many economic matters. It did manage to generate some controversy, however; the MERG coordinator at one point remarked that the

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<sup>100</sup> The NEM was official economic framework plan of the 1992-1994 transitional government. It was based upon an econometric model created by economists at the University of Stellenbosch, home to many of the top Afrikaner academics. The transitional government was largely a creature of the National Party, even if allowed some nominal amount of input from ANC leaders. The NEM proposed trade liberalization, privatization, and strict fiscal discipline. It drew heavily on supply-side theories popularized in the 1980's. However, the NP never faithfully implemented the NEM.

See Marais, Hein. *South Africa: Limits to Change: The Political Economy of Transition*. University of Cape Town Press: 2002. p. 129

<sup>101</sup> Macroeconomic Research Group. *Making Democracy Work: A Framework for Macroeconomic Policy in South Africa*. Marshalltown: ANC Department of Economic Planning, 1993.

South African Reserve Bank should revert to being a subsidiary of the Ministry of Finance.<sup>102</sup> COSATU briefly celebrated this proposal, but it was later retracted under ANC and external pressure, not least from the IFIs.

COSATU Secretary-General Jay Naidoo participated heavily in the MERG negotiations that resulted in a strongly social-democratic, but certainly not socialist, document. This begs us to examine COSATU's internally contradictory rhetoric, and to question whether union movement officials really bought into a socialist program.

While Secretary-General Naidoo discussed policy with ANC economists in 1993, many of the representatives of COSATU's member unions did not appreciate the watershed change in the national office's ideological position. At the 1993 NUMSA conference, many of the provincial member-units voted in favor of a resolution demanding nationalization without compensation of all industrial capital, arguing that "there is no point in [continuing to reward, with rents, whites] who robbed us in broad daylight."<sup>103</sup> These factions were not aware that the higher alliance structures were no longer even considering such drastic action. This too speaks to COSATU's institutional weakness and its poor intra-organizational communication.

COSATU also suffered, and suffers, from a lack of technical talent. During the mid 1990's, COSATU counted on a few stars to represent its interest in international and intellectual milieu. These included Jay Naidoo, the Secretary-General who later became RDP minister, Alec Erwin, the SACP officer tapped to be Deputy Finance Minister in the mid 1990's and current head of the Department of Public Enterprises, and labor economist Tito Mboweni, appointed first Minister of Labour and later Governor of the South African Reserve Bank (SARB). COSATU lost these thinkers to high posts in government shortly after democratization, and the holes that they left were not effectively patched. Even toward the end of apartheid, at the zenith of COSATU's influence, the confederation struggled to speak with a

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<sup>102</sup> ANC Department of Economic Planning. Press Release: The Macroeconomic Research Group and the South African Reserve Bank. Marshalltown: July 11, 1993.

<sup>103</sup> Mayekiso, Moses. "Nationalization, Socialism, and the Alliance" *South African Labour Bulletin* 17: 4 (August 1993)

unified voice. Moreover, it found relatively high ranking organizers making public statements that reflected unsophisticated analysis. In 1994, Tony Ruiters, a former COSATU official and head of the RDP provincial ministry in the Western Cape, offered this unqualified comment on industrial policy in an essay about the future of South Africa-IMF relations:

There may be a case for arguing that some industries will have to be protected, even if they are not going to make it in terms of world competition, so that we can provide our people with basic necessities.<sup>104</sup>

Overall, the RDP can be counted a victory for the interests of labor. The union movement applauded the RDP's stipulation that the power of foreign investors be superceded by 'the national interest', and cheered that "the RDP [made] an unequivocal commitment to fundamental worker rights and the protection of labour standards."<sup>105</sup> But the benefits promised by the RDP (often vaguely and non-prescriptively) would be just as easy eroded and reneged upon. COSATU grumbled initially that the RDP failed to mandate collective industry wide-bargaining, à-la Sweden. A few years later, this would be the least of the unions' complaints.

## B. ANC Economics and the RDP

At all stages of the RDP drafting process, the ANC held most of the levers, receiving and accepting assistance from both labor and from the IFIs. The final document embodied nearly three years of planning and consultation with scores of actors (in a way that GEAR would not). It also exposed, just as in the case of COSATU, the conflicting economic perspectives of ANC leaders. According to

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<sup>104</sup> Ruiters, Tony. "The Implications of IMF Involvement for Labour in South Africa: COSATU's view" in: Anthony Leysens, ed. *The Political Economy South Africa's Relations with the International Monetary Fund and the World Bank* University of Stellenbosch Press: 1994

<sup>105</sup> COSATU. Press Statement: Response to the Release of the RDP White Paper. Johannesburg: September 27, 1994.

political economist Hein Marais, the ANC suffered from a “patent absence of technically rigorous economists” in the early 1990’s.<sup>106</sup> This indicates that, just as the poor apartheid-era training of COSATU’s leaders left the door open to extensive ANC influence, the ANC would be vulnerable to pressure from the sister institutions in Washington.

The ANC, the recipient of astonishing adulation in the wake of its 1994 victory, did not translate its mandate into a particularly clear economic program through the RDP. Most of the RDP’s language pandered to the ANC’s more progressive factions, but failed to determine targets in key areas. It breezed through its treatment of the trade regime, at once implying a reduction of tariffs and promising to single out “pivotal” and “well-linked” industries for support. It avoided design of an industrial policy.<sup>107</sup> For all its talk of democratization of labor practices and recognition of worker prerogatives, it danced around discussion of a minimum wage. On this subject, none other than Nelson Mandela would implore to the 1994 COSATU confederation conference that:

Unless we sacrifice, unless we have the determination to tighten our belts, it is going to be difficult to get the economy to grow.<sup>108</sup>

COSATU would lose the intra-alliance battle over a nationwide minimum wage in 1994, presaging the ANC shift in focus toward austerity and suppression of wage growth. The claim that has so plagued COSATU, that ‘inflexible’ labor markets hamper both employment and overall growth, had already appeared by this point (see chapter 8). The ANC leadership contained elements that leaned toward a more liberal post-apartheid South African order. Chief among these was Trevor Manuel, the present Minister of Finance (appointed 1996), champion of GEAR, and one of the

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<sup>106</sup> Marais, Hein. *South Africa: Limits to Change: The Political Economy of Transition*. University of Cape Town Press: 2002. p. 135

<sup>107</sup> Government of National Unity (South Africa) *Reconstruction and Development Programme White Paper* Pretoria: September 11, 1994.

<sup>108</sup> Mandela, Nelson. Speech: August 9, 1994.

sharpest intellectual forces in the liberation movement. Since 1994, only three men have managed the Ministry of Finance: NP holdover Derek Keys, former NP supporter Christo Liebenberg, and Manuel. This has not proven to be a recipe for the implementation of the most progressive macroeconomic ambitions of the RDP.

Most of the South-Africa's massive business conglomerates swallowed the RDP's medicine. While RDP policy was only effective for a brief period, it did force businesses to accept some tax hikes and the redirection of funding away from investment that served capital and the white middle classes toward basic service provision for the poor. More importantly, it laid the foundation for a new labor market dispensation, and 1995 saw a spike in the rate of black wage increases. In 1995, black incomes also reached their highest level compared to white incomes in recent history (at about 12% of white per capita income).<sup>109</sup> Some, including the largest among the titans, the Anglo American Corporation, publicly supported the RDP. But white capital recognized early that the RDP contained loopholes through which it might escape its new and onerous responsibilities. In a shareholder meeting in early 1995, the chairman of the Barlow-Rand Corporation predicted that “[South Africa] will be fighting off the carcass of the RDP for years to come.”<sup>110</sup> The World Bank and the IMF, initial public boosters of the RDP, may have harbored similar sentiments.

### C. The IFIs and the Economics of Liberation

The early 1990's saw an onslaught of World Bank and IMF research missions, advisory visits, and conferences in South Africa. The first ‘reconnaissance’ missions occurred in 1990, with the presence of the IFIs growing thereafter.<sup>111</sup> As cited above,

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<sup>109</sup> Van der Berg, Servaas, Ronelle Burger, Rulof Berger, Megan Louw, and Derek Yu. “Trends in Poverty and Inequality Since the Political Transition” *University of Stellenbosch Department of Economics Working Papers 2005:1* Stellenbosch: 2005

<sup>110</sup> *RDP Monitor (Newsletter) 1:6* “Business: Confused Signals?” (February 1995)

<sup>111</sup> Bond, Patrick, *Against Global Apartheid: South Africa Meets the World Bank, IMF, and International Finance* University of Cape Town Press, 2003. p. 24

the IFIs saw liberation as an unprecedented opportunity to positively affect policy in a government that betrayed a dearth of economic expertise and had inherited a complex economy featuring pockets of western-level development.<sup>112</sup>

While the IMF lent South Africa US\$850 million in 1993 to shore up a balance of payments deficit due to poor agricultural performance, the World Bank's presence was much heavier in South Africa than the IMF's in the years immediately preceding and following liberation. The IMF had, to some degree, blackened its name in South Africa with its loan to the apartheid regime in 1981. The Bank then eased itself into the public role of the enlightened, reformed multilateral institution. It initially provided South Africa with policy advice that complemented the aims of the MERG and the RDP, namely: redistribution. A 1994 World Bank working paper, titled *South Africa: Economic Performance and Policy*, made this recommendation:

Increased public investment would directly serve the redistributive objective and contribute to improved social stability. Such investments should, in the presence of greater private investment confidence, generate sufficient upward multiplier effects to drive the economy back toward full capacity.<sup>113</sup>

This neo-Keynesian demand response reflects an acknowledgement of the realities of the South African economy of the early 1990's. Industry and agriculture had not produced at capacity for many years, due to mounting violence, investor skittishness, government mismanagement, and trade union action. Cyril Ramaphosa's National Union of Mineworkers (NUM) called mass strikes in 1992, the KwaZulu 'homeland' was in a state of war, and 40% of all international firms operating in South Africa in 1980 had divested completely.<sup>114</sup> On a subject that will be discussed at length in chapter 5, the World Bank suggested that South Africa not even consider discarding

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<sup>112</sup> World Bank *Country Assistance Strategy: South Africa* ( Washington DC: Publication #19665, 1999)

<sup>113</sup> Fallon, Peter, and Luiz A. Pereira da Silva. "South Africa: Economic Performance and Policy" *World Bank Working Paper* (Washington DC: 1994)

<sup>114</sup> Marais, Hein. *South Africa: Limits to Change: The Political Economy of Transition*. University of Cape Town Press: 2002. p. 108

its capital controls for some time after the 1994 election.<sup>115</sup> From the early 1980's until the 'east-Asian' crisis of 1997/98, the IFIs requested the dismantlement of capital controls with particular zeal, even in countries (primarily African) in political straits rockier than that of South Africa. Yet the IFIs, at least during the immediate post-apartheid period, decided that a traditional Structural Adjustment program would not suit South Africa.

One must examine closely, however, the time-horizon of the World Bank recommendations. A Bank document states that "if external capital inflow resumes to a significant extent, the system of foreign exchange controls can be reviewed."<sup>116</sup> It was not difficult to predict that a (brief) boom in FDI would follow a successful democratic transition. While the World Bank continued to encourage increases in public investment in basic services, the fiscal budget deficit in 1993 approached 10% and the Bank (as well as the ANC and the SARB) urged its containment. Some of the massive discrepancy between revenue and spending could be patched by improving tax collection, scaling down the defense force, and curtailing bloated public salaries. But it was indeed optimistic to predict that cuts above and beyond these would not be necessary in order to bring South Africa in line with 'international standards' (or deficits ~ under 3% of GDP).

Overall, the IFIs approved of the RDP's redistributive mission, and they agreed that some time would be required for restructuring South Africa's economy before liberalization could be pursued. They misread, on the balance, the length of that period. The legacy of apartheid still constrains today the ability of the South African government to coax the South African economy onto its potential growth path using orthodox economic measures (such as opening the country to capital flows and awaiting productive investment while praying that local companies do not send assets abroad). The memories of some within the ANC and the IFIs proved short, as will be demonstrated in the next chapter. The removal of capital controls, a process

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<sup>115</sup> Ibid. Fallon and Da Silva.

<sup>116</sup> Fallon, Peter, and Luiz A. Pereira da Silva. "South Africa: Economic Performance and Policy" *World Bank Working Paper* (Washington DC: 1994)

that began in 1995, contributed greatly to an ideological sea-change within the ANC, one encouraged by IFI pressure. The befuddled labor movement, fresh from victory in the struggle, did not appreciate the significance of the unification of the ‘two rands’. And it would cost them dearly. The abolition of the financial rand activated the ANC’s desire to please the powers of international finance, demonstrated the deft exercise of influence by the IFIs, and presaged the decline of COSATU.

## **Chapter V**

### **The End of the Financial Rand and the Self-Fulfilling Prophecy**

On September 27, 1995, the IMF bestowed upon South African Reserve Bank Governor Chris Stals the award for ‘Central Banker of the Year’. The Fund praised Stals’ “bold decision” to scrap the financial rand, the discounted currency used for international capital transactions.<sup>117</sup> The two rands officially became one on March 13, 1995, and between that point and the night that the IMF honored Stals, the rand’s value remained relatively stable.<sup>118</sup> The five years that followed would be a very different experience. They were marked by three distinct currency crises, in 1996, 1998, and 2001. Each curtailed short-term and medium-term growth and bred lasting fear of rand instability. Yet at few points after 1995 did the ANC seriously consider the revival of capital controls. This chapter examines the end of the financial rand and its consequences.

By 1993, myriad forces inside and outside South Africa were clamoring for the unification of the two rands. Many among these predicted (somewhat incongruously when compared to experience in other developing countries) that the lifting of capital controls and the concomitant increase in currency volatility would only marginally affect economic outcomes. An essay written in 1993 by Ronnie Bethlehem, the chairman of the South Africa Chamber of Commerce, reads:

[If the financial rand is discarded], negative shocks will cause forex instability, but that need not be the end of the world...Within weeks corrective speculative forces will assert themselves, provided that we have the IMF and other countries playing a supporting role.<sup>119</sup>

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<sup>117</sup> *Agence France Presse* “Top Award for South African Banker” September 27, 1995.

<sup>118</sup> Statistics South Africa

<sup>119</sup> Bethlehem, Ronnie. “Implications of IMF Involvement for the South African Private Sector” in: Anthony Leysens, ed. *The Political Economy South Africa’s Relations with the International Monetary Fund and the World Bank* University of Stellenbosch Press: 1994

Alas, this was not to be; the spring holiday that followed the early 1995 unification of the rands gave way to the first round of speculative attacks in 1996. And this first spike in instability paled in comparison to those of 1998 and 2001. While the new rand traded at an average of 3.62 per dollar in 1995, it peaked at 13.85 per dollar in December 2001, before plummeting again and leveling off at between 6 and 7. Since the unified rand began trading freely on world forex markets, the rand has been one of the most volatile currencies of the world.

In addition to the effects of currency instability, the scraping of the financial rand engendered, in very short order, the drafting and ultimate acceptance of GEAR, the program engineered to placate uneasy investors. Banker and author Cees Bruggemans made this case (perhaps unintentionally) when he wrote that “the February 1996 rand [devaluation] acted as a wake call to the government...It signaled a worse crisis and contraction if nothing was done.”<sup>120</sup> To the bankers, the IFIs, and a select few planners in the ANC hierarchy (especially Mbeki and Manuel), there was only one option. Further liberalization of capital and trade would have to accompany a revamped economic plan centered on achieving fiscal stability and low inflation. The removal of capital controls had altered the prevalent paradigm such that there was only one way ‘forward’.

The unification of the two rands and the contemporaneous relaxation of capital controls should be seen as the pivotal point at which South Africa unwittingly committed itself to neoliberal orthodoxy. From these actions was born a self-fulfilling prophesy: open currency trade to foreign interests, and their market power will usher you toward policy in line with the so-called ‘Washington Consensus’. Little did COSATU understand that this step taken in 1995 would set off a chain-reaction. We must then examine how this was allowed to occur, and in what ways the three actors treated in this paper participated in, were affected by, and reacted to the proceedings.

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<sup>120</sup> Bruggemans, Cees. *Change of Pace: South Africa's Economic Revival* Johannesburg: Witwatersrand University Press, 2003. p. 57

## A. The End of the Financial Rand

Between 1946 and 1976, South Africa was a net importer of capital in all but four years: 1959-1963, the years following the ‘Sharpeville Massacre’.<sup>121</sup> The currency system established at Bretton Woods discouraged most types of speculative flows during at least the first two decades of this period. South Africa offered enticing opportunities for foreign investors in the mining sector, and the country still managed to be a net importer of capital despite what was widely considered to be an overvaluation of the rand, maintained to promote Import Substitution Industrialization (ISI). Between 1977 and 1980, the capital account became negative. It then reversed itself on the back of the gold demand frenzy of 1979-1980, which pushed gold up to a real dollar historical high of over \$600 dollars/ounce. However, the composition of investment in South Africa had changed. It had become more speculative, more often in equities and bonds, and less long-term and geared toward industrial production.<sup>122</sup> This augured badly for a South Africa slipping into a protracted period of violent unrest.

Capital flight struck South Africa in the 1980’s, culminating in 1985 as waves of strikes paralyzed much of the country while violence escalated. In August 1985, Chase Manhattan refused to continue loaning to the state of South Africa, and the rest of the financial community followed suit.<sup>123</sup> PW Botha’s government unilaterally declared a ‘debt standstill’, freezing repayment and calling for negotiations. The government then created the financial rand (finrand) and declared all domestic assets held by foreigners to be so denominated. The finrand traded on world markets, while the commercial rand, the currency used within South Africa and in transactions of trade in goods, was valued by the South African Reserve Bank. The finrand could be

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<sup>121</sup> Feinstein, Charles. *An Economic History of South Africa: Conquest, Discrimination, and Development* Cambridge University Press: 2005. p. 226

<sup>122</sup> Ibd. Feinstein. p. 227

<sup>123</sup> Van Zyl, Lambertus, “Investor Relations Practices by Leading Emerging Market Authorities: South Africa”. Speech made to the IMF seminar: “Investor Relations- A Tool for Crisis Prevention” Washington DC: November 6, 2001

converted at a discount to the commercial rand, imposing a tax on the export of capital and on the withdrawal of foreign capital already in the country. Despite this, net outflow of capital continued after the introduction of the financial rand.<sup>124</sup>

The facilitation of the two rand system required a massive bureaucratic effort, and opened up new and lucrative avenues of graft. By no means should the dual rand, as constituted and regulated in South Africa, be considered a panacea for currency instability and capital flight. The Reserve Bank did not stop (and often participated in) ‘currency roundtripping’, whereby Afrikaner banks purchased financial rand on the world market, only to have the funds miraculously reappear on their books as commercial rand in the same nominal quantity. The Witwatersrand attorney general found in 1999 that all transactions approved by the Reserve Bank of R300 million and larger were tainted by such dealings.<sup>125</sup>

But was there a convincing case for the unification of the two rands in 1995? The answer appears to be no. In 1994, the World Bank counseled the government to unify the two rands when “the gap between the financial rand and the commercial rand [had] narrowed consistently to a sufficiently small differential.”<sup>126</sup> Indeed, the finrand hovered at 90% of the value of the commercial rand during the three weeks that preceded the decision to scrap the dual exchange rate regime. And yet, not even one year had passed since the day (April 10, 1994) that the financial rand had traded at the lowest level since its introduction. To assume that less than a year of rand stability predicted a rand able to withstand the future vagaries of the international forex markets was dubious at best. Finance Minister Chris Liebenberg, SARB governor Chris Stals, and those that agreed with him in the ANC intended, by lifting this potent capital control, to prove that South Africa could face the international

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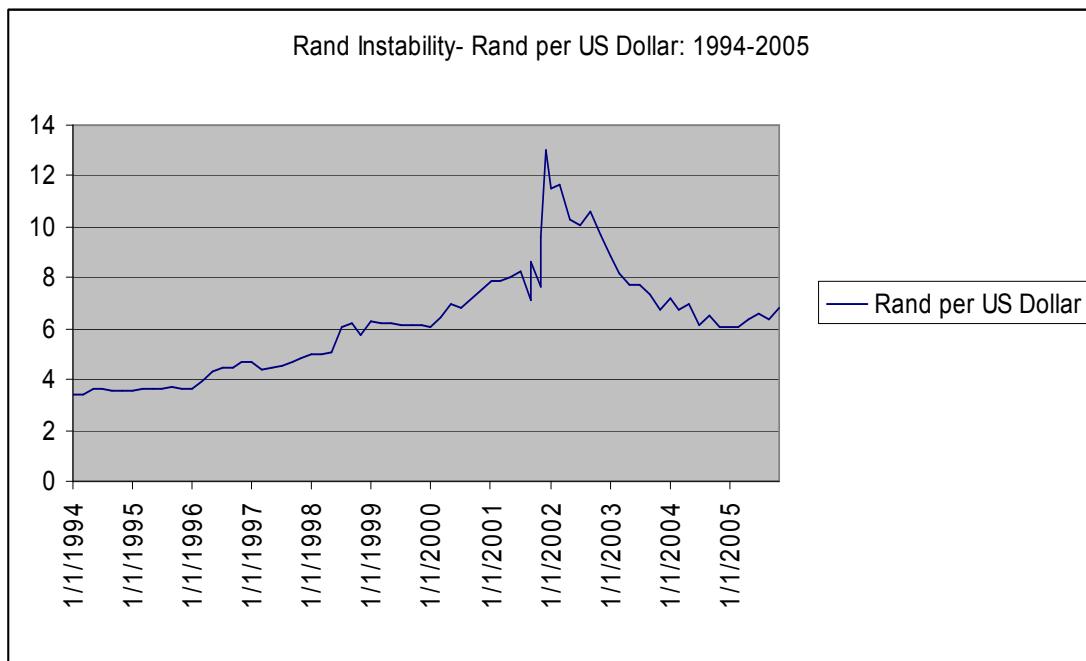
<sup>124</sup> Feinstein, Charles. *An Economic History of South Africa: Conquest, Discrimination, and Development* Cambridge University Press: 2005. p. 227

<sup>125</sup> As cited in Bond, Patrick, *Against Global Apartheid: South Africa Meets the World Bank, IMF, and International Finance* University of Cape Town Press, 2003. p. 272

<sup>126</sup> Fallon, Peter, and Luiz A. Pereira da Silva. “South Africa: Economic Performance and Policy” *World Bank Working Paper* (Washington DC: 1994)

market nose to nose and survive. The ANC wished to be an exemplary state in the eyes of the IFIs and international finance. Regarding capital controls they largely succeeded, even if the domestic effects have been largely negative thus far (despite claims to the contrary).

## B. The Effects of International Market Exposure



Source: South African Reserve Bank

Chris Stals and Chris Liebenberg declared the end of the financial rand on March 13, 1995. The move was not unexpected, although the moment was not revealed until shortly before it occurred. Nearly a year later, Stals appeared triumphantly before the SARB board of governors to make his annual report on the state of monetary policy. The rand had remained relatively stable, appreciating smoothly (5.1% net gain against the US dollar) since the rubbishing of the dual exchange rate. Positive net capital flows reached R22 billion in 1995, and Stals

declared 1995 an unqualified monetary success.<sup>127</sup> Even though R9 billion of this inflow represented short term bank transactions, Stals insisted that equity investment by foreigners be considered good faith medium to long-term commitments. Stals rounded out the speech by calling for further liberalization of financial markets, to contribute to their “self-regulation”.<sup>128</sup>

According to the banker Bruggemans, himself a subscriber to most precepts of neoliberalism (remarking that “obviously: exchange controls are not an effective policy tool”), the SARB was thoroughly “steeped in monetarist thinking by the mid 1990’s.”<sup>129</sup> As such, the Reserve Bank believed investors only temporary fallible; in short order, equilibrating forces would act to bring the rand close to its ‘true value’ in the event of destabilization. But by the end of 1996, speculators had assailed the rand, and no short term corrective forces were evident. Between February 15 and April 16, 1996, the rand depreciated by 18% against the US dollar. The Reserve Bank’s public statement following the announcement of a 1% interest rate hike in mid-April expresses concern that “the rand [could] now be justifiably called an undervalued currency.” It goes on to warn that:

This step by the Reserve Bank, which is in line with current developments in the money and capital markets, may not be completely compatible with recent trends in the domestic economy. For the time being, however, it has become a first priority to restore some stability in the foreign exchange market.<sup>130</sup>

GDP per capita grew at just 2% in 1996, after a very slow 1995 (0.9% growth).<sup>131</sup> This was not encouraging for an economy still producing far below full capacity, despite its improving fundamentals. The SARB did not deny that from a purely domestic standpoint, the spring of 1996 was not the correct time to raise interest rates.

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<sup>127</sup> Stals, Christian. Address to the South African Reserve Bank Board of Governors. Pretoria: February 20, 1996.

<sup>128</sup> Ibid. Stals.

<sup>129</sup> Bruggemans, Cees. *Change of Pace: South Africa’s Economic Revival*. Johannesburg: Witwatersrand University Press, 2003. p. 89; p. 95

<sup>130</sup> South African Reserve Bank: Statement on the Bank Rate. Pretoria: April 16, 1996.

<sup>131</sup> World Bank Development Indicators

Stals spent over R5 billion (~\$1.2 billion) in foreign exchange that spring in a futile effort to defend the rand. But he could not appear too unsettled; after all, he had lobbied assiduously for the end of the financial rand.

South Africa was granted less than two years of respite before the storm struck again during the worldwide crisis of 1997/98. The financial bedlam born of the panic of investors operating in East Asia punished South Africa with all the force of the well-wired late 90's financial markets. At the pinnacle of the crisis, investors did not pull out of South African equities; in fact, equity prices actually rose slightly during the period. They did, however, flood the bond market, causing a disastrous dip in bond prices. The Reserve Bank chalked this up to a "general decision to reduce exposure to fixed-interest bearing bonds in emerging markets."<sup>132</sup> Meanwhile, neither the Reserve Bank, President Mandela, nor Finance Minister Manuel questioned publicly whether the removal of capital controls had been premature.

More than R13 billion fled the country in 1998, despite that the SARB both spent R8 billion defending the currency and raised up real interest rates to above 20% by the end of the third quarter. The rand experienced a 28% nominal depreciation against the dollar between March and September 1998, turning a "justifiably undervalued" currency into a true lightweight. The Reserve Bank intervened in foreign exchange markets with dogged persistence, squandering billions of rand in a fruitless effort to dissuade speculation. The economy contracted by 1.8% per capita in 1998, depressed by currency crisis and high interest rates.<sup>133</sup>

South African economic policy followed most of the guidelines laid out by the IFIs and their patrons for response to capital flight; it raised interest rates to discourage withdrawal, did not decree new capital controls, and refrained from issuing inflammatory threats. The SARB did flout IFI prescription in exchange market intervention, resulting in accusations of disequilibrating "dirty floating".

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<sup>132</sup> Stals, Christian. "The Current Economic Situation and Factors Influencing Monetary Policy in 1999" Paper presented at a Conference sponsored by ABN-AMRO. Pretoria: November 8, 1998.

<sup>133</sup> World Bank Development Indicators

During the crisis of 2001, the monetary authorities would retreat almost entirely from the market, allowing the rand to fall even more precipitously than in 1998, but keeping interest rates at levels more reasonable for the domestic context.

Moreover, the contagion of 1998 struck a South African state in the midst of faithful implementation of the much applauded GEAR program. According to the World Bank, GEAR was specifically designed to assuage the fears that international finance harbored about South Africa fundamentals:

In 1996, faced with external pressures and instability in the Rand, and concerns over the commitment to sound macroeconomic policies, the government introduced GEAR. To restore confidence and enhance credibility, GEAR built upon the strategic vision set out in the RDP by committing government to specific macro targets.<sup>134</sup>

One notes that the Bank does not mention here a real need for a retooled economic program, but only a perceived need. Nor does the Bank offer elsewhere evidence that the domestic context demanded such reforms. GEAR, which will be examined in greater depth in the following chapter, endeavored to favorably influence perceptions among international and domestic investors. Despite these strident belt-tightening efforts, investors and economists still managed to identify gaps in policy that they interpreted as showing low aptitude in monetary regulation. Trevor Alleyne, an IMF economist who worked at the South Africa desk between 1998 and 2000, told the author in an interview that South Africa turned the international contagion of 1998 into a domestic problem; the Reserve Bank “improperly” gave unclear signals to the market with its interest rate policy, having little prior experience with ‘managing’ foreign investors.<sup>135</sup> The learning curve in the forex game was very steep.

As the 1998 and 2001 crises proved, South Africa’s carefully designed period of austerity failed in its primary mission. Top ANC and Reserve Bank officials were

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<sup>134</sup> World Bank *Country Assistance Strategy: South Africa* ( Washington DC: Publication #19665, 1999)

<sup>135</sup> Alleyne, Trevor. Interview with the author: Washington DC, March 15, 2006

not oblivious to this (although COSATU leaders sometimes were). Even in 1997, after the first comparatively mild ‘rand event’, Chris Stals was already complaining of investor myopia. In a February 1997 speech to investors and government officials at a conference sponsored by the banking outfit Frankel Pollak, Stals accused investors of “reacting wildly” to rumors.<sup>136</sup> The rumor of which he spoke was one that circulated through the novel conduit of e-mail in early 1996. This gossip purported that Nelson Mandela was ill. While later rebuked, many suspect that this snippet triggered the speculative attack on the rand.<sup>137</sup>

Even more unexpected than those that preceded it was the rand devaluation and capital flight of 2001. In 1999, Tito Mboweni took over from Chris Stals as Governor of the SARB. He had been deputy chief of economic planning during the ANC’s late exile period. With his ascension, blacks penetrated the last of the bastion held by a member of the old guard. There was continuity, however, in the treatment of the rand, with capital controls being slowly relaxed (even in 2001, South African residents could not fully participate in currency markets, although foreign actors could). In early 2000, the value of the rand stood at ~6.05/ dollar. By August of 2001, it had slipped to R8.45/ dollar. Then the real shock occurred; by Christmas 2001, the rand had fallen to 13.85/ dollar. While the rand has rebounded over the past four years to reach a fairly stable range of between 6 and 7 rand per dollar, the causes 2001 crisis remain unknown.

Or rather, this experience served to prove that currency markets are vulnerable to panics unconstrained by individual country fundamentals. The speculative attack on the rand in 2001 cannot be viably chalked up to anything other than financial sector herd mentality and the associated cultural aspects of financial careers (bankers may experience disapprobation if they do not ride the upswing, but are not blamed individually at the point of the crash). In 2003, IMF Chief Economist and Cape Town

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<sup>136</sup> Stals, Christian. Speech Given to the Société Générale- Frankel Pollak Investor Forum. Johannesburg: February 18, 1997.

<sup>137</sup> Bond, Patrick. *Talk Left, Walk Right: South Africa’s Frustrated Global Reforms*. Scottsville, South Africa: University of Kwazulu-Natal Press, 2004. p. 90

native Kenneth Rogoff granted the *Mail and Guardian* an interview while visiting relatives in South Africa. He spoke of the rand crisis of 2001, saying that “the rand may have been following the Australian and New Zealand dollars, ‘commodity currencies’ that experienced steep losses earlier.”<sup>138</sup> Undeniably, South Africa’s terms of trade had deteriorated since the beginning of 2000, due to falling commodity prices. But this hardly explains such a traumatic depreciation. The recent IMF tome on the South African post-apartheid economy ascribes part of the blame for the 2001 crisis to the slow pace of privatization. In fact, this pace was not exceptionally slow, as will be seen in chapter 7. However, the IMF avers that international investors were disquieted by delays in the offering of Telkom (telecommunications), sparking flight and speculative attack.<sup>139</sup> This is difficult to substantiate, but only further hints at the connection between the rand crisis and irrational speculative panic.

By the late 1990’s, South Africa had been lauded for its work in many spheres, especially in its efforts to reduce government debt. The government hawkishly curtailed spending until it had pushed the fiscal deficit to below 1% of GDP in 2000. The SARB was applauded for its effort to reduce its ‘net forward book’ exposure (holding of contracts to buy currencies in the future), shrinking these commitments from real \$28 billion in 1998 to \$4 billion by 2001.<sup>140</sup> Rogoff qualified his statement about the 2001 crisis by admitting that “one of the most striking facts about exchange rates is that the reasons for their movements are hard to explain after the fact.”<sup>141</sup> Nevertheless, Rogoff argued the exchange controls were “unambiguously bad”, and that the 2001 rand crisis was a worthwhile price to pay for a flexible exchange rate. Why this is the case in South Africa is not easily discernible.

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<sup>138</sup> Katzenellenbogen, Jonathan. “Currency Crises Exaggerated- IMF man” *Business Day* Johannesburg: January 10, 2003.

<sup>139</sup> Ricci, Luca Antonio, and Ashok Jiyantilal Bhundia. “The Rand Crises of 1998 and 2001: What Have We Learned?” In: *Post-Apartheid South Africa: The First Ten Years* Michael Nowak and Luca Antonio Ricci, eds. (International Monetary Fund. Washington DC: 2006)

<sup>140</sup> South African Reserve Bank

<sup>141</sup> Ibid. Katzenellenbogen.

Rogoff's views reflect the perspective of what were still clearly the dominant factions within the IFIs in 2001. Certainly there were dissenters within the institutions; in 2003 would appear Joseph Stiglitz's *Globalization and Its Discontents*, challenging the 'unambiguity' of the negative impact of capital controls. Rogoff, in the interview quoted above, accused Stiglitz of making claims that were "at best, highly controversial, and at worst, akin to pedaling snake oil."

Notwithstanding this internal conflict, the World Bank and IMF promoted the liberalization of all capital controls in South Africa between 1990 and 2001. Dr. Alleyne told the author that even though the IMF hailed progress in loosening capital controls, it privately nudged South Africa to quicken the pace, especially before 1998.<sup>142</sup> Today, the IFIs tend to look back at the experience of capital liberalization through a revisionist prism; the 2005 IMF *Article IV- South Africa* consultation remarks, without qualification, that South Africa's flexible exchange rate has served the country well.<sup>143</sup>

Many questions then arise about the ANC's rationale for scraping the financial rand and reducing other controls. Did officials really believe that the rand would be stable at a time when the world's collective view of South Africa was clouded by the violence of the end of apartheid era? Was the ANC unaware of the implications of capital flight, à la Mexico in 1994-1995? Furthermore, what reason did the ANC have to believe that FDI inflows would exceed flight of domestic South African capital?

On the last count, inflows did technically exceed outflows between 1995 and 2001. But there is more to this story; most of the inflows were of a speculative nature. COSATU, in response to the release of 2000 budget, exhibited concern that foreign investment other than portfolio transactions registered a net outflow of R21.6 billion (\$3.5 billion) in 1999.<sup>144</sup> Finance minister Manuel loosened laws that bound 'national

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<sup>142</sup> Alleyne, Trevor. Interview with the author: Washington DC, March 15, 2006

<sup>143</sup> International Monetary Fund, *South Africa: 2005 Article IV Consultation- Selected Issues* (Washington DC: 2005)

<sup>144</sup> COSATU: Public Response to the 2000/2001 Budget. Johannesburg: March, 2000;

companies' to be headquartered in South Africa and be traded on South African exchanges during his first year in office. By 2000, De Beers, Anglo American, and South African Breweries, three of the largest conglomerates, had decamped to London. Two traded on the London exchange, and De Beers delisted entirely. In 1998, the effect alone of De Beers and Anglo American leaving the country in which they collected most of their revenue drew down the value of the Johannesburg Stock Exchange by 12%.

Strangely enough, this may have squared with the ANC's wishes. According to political economist Hein Marais:

Foreign investors [in South Africa] eyeing post-1994 opportunities found an economy dominated by sprawling local corporations, leaving little space for bulky foreign entrants. By encouraging offshore investments, government hoped to create 'space' in the economy.<sup>145</sup>

The ANC placed the same faith in international investors as many of their counterparts in Sub-Saharan Africa had in the 1980's; they believed that South Africa, with its relatively developed industrial base, would succeed where poorer nations had failed. It did not succeed to the degree that Mandela, Manuel, and Mbeki had hoped. The reasons for this are not precisely clear, but there are many plausible options: poor apartheid-era social infrastructure, poorly trained workers, a capital equipment glut, crime, anti-African bias of international investors, and fear of union power. A 2003 article in *Foreign Direct Investment*, a publication of the *Financial Times* (London) expressed bewilderment at the low level of foreign interest in South Africa.<sup>146</sup> Londoners, in fact, appeared to be the only ones with any interest; three

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COSATU has never been entirely ignorant of the interplay between financial markets and the domestic economy. It has not often demonstrated the ability, however, to contextualize market swings in a long-term series of events.

<sup>145</sup> Marais, Hein. *South Africa: Limits to Change: The Political Economy of Transition*. University of Cape Town Press: 2002. p. 174

<sup>146</sup> Eedes, James. "South Africa's Silver Linings" *Foreign Direct Investment Magazine* London: June 20, 2003.

quarters of all FDI in South Africa now comes from the UK (home to over a million South African expatriates).<sup>147</sup>

And the price was high, coming in the form of the currency crises described above. The South African elite held nonetheless to the doctrine that once capital controls were lifted, they could be not be reinstated. They were a ‘new reality’ in a new South Africa.

The only explanation for this is that, again, a yearning to ‘play with the big boys’ overshadowed more calculated planning at the top echelon of the ANC leadership. The unification of the two rands was a crucial piece of this puzzle. It was only at the highest levels of the ANC that discussion of such things as capital account liberalization occurred; the ANC rank-and-file reveled in its victory over apartheid for the balance of the 1990’s and paid little attention to ‘technical’ but consequential decisions.

One must ask why COSATU so quietly endured the adjustment to a liberalized capital regime. The answer is found in COSATU’s weak capacity; only a few of its top officials and intellectuals understood the ramifications of the new currency regime. COSATU leaders had little education in matters of international finance. Most of them rose up through the organization from the shop floors of an apartheid South Africa largely cut off from the world. In 2002, at COSATU’s urging, the government opened a judicial inquiry into the 2001 run on the rand. Union leaders suspected that “illegal and unethical activities” contributed to the fall and that “the perpetrators must be brought to book.”<sup>148</sup> In COSATU’s public statement encouraging the prosecution of financial wrong-doers, the union seems confounded over why the rand was attacked. The investigation concluded with no indictments;

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<sup>147</sup> Arvanitis, Athanasios. “Foreign Direct Investment in South Africa: Why Has it Been so Low?” In: *Post-Apartheid South Africa: The First Ten Years* Michael Nowak and Luca Antonio Ricci, eds. (International Monetary Fund. Washington DC: 2006)

<sup>148</sup> *All Africa News* “COSATU Welcomes Investigation into the Depreciation of the Rand” January 9, 2002.

There was nothing technically illegal about betting against the rand within a system of open capital flows.

The COSATU statement does, however, suggest erecting ‘road bumps’ in the path of footloose capital, an idea already anathema to the leaders of the ANC. There has always been some questioning of the decision to remove capital controls. In February 1997, the respected *Mail and Guardian* published an article titled “South Africa’s Exchange Controls- Easy Does It”. It warns that:

[South Africa] certainly hasn’t reached a stage [at which it is safe to further loosen capital controls]- neither the fundamentals nor the sentiment is strong enough to deter massive capital flight. Which begs the question- why lift exchange controls at all?...The overriding rationale seems to be political- a desire to integrate South Africa into the global economy...Abolishing controls would signal that South Africa has grown up.<sup>149</sup>

James Heintz, a researcher at the labor-sponsored National Labour and Economic Development Institute (NALEDI) contributed heavily to this article. He points out that South Africa should have waited until employment and social stability had increased before subjecting the economy to the potentially painful adjustments of a floating currency. At the point where the (brief) debate over the future of the finrand ended in decision to combine the two rands, little COSATU input was heard. The ‘social movement union’ was reinventing itself as a more ‘workerist’ union, preparing to concentrate more upon labor issues and less upon political ones (if such a distinction can be made). It did not identify capital controls as a priority. Instead, it perceived its stock as high-and-rising in the wake of the Labour Relations Act of 1995. Its officials (including COSATU intellectual Tito Mboweni, the future SARB Governor) served as ministers in the Government of National Unity.

Meanwhile, top ANC officials and other members of the reconstituted South African elite acted as if the scrapping of the financial rand had been inevitable. In the

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<sup>149</sup> *Mail and Guardian* “South Africa’s Exchange Controls- Easy Does It” Johannesburg: February 7, 1997.

same *Mail and Guardian* article quoted above, economist Pieter Laubscher of the University of Stellenbosch comments:

As the experience since the abolition of the financial rand has shown us, financial volatility is a new reality in South Africa. It will be countered to the extent that the authorities implement credible, stable, and transparent and consistent policies.<sup>150</sup>

Laubscher makes no acknowledgement of option number two (albeit a difficult one): the resurrection of capital controls. Many among the ANC and their advisors saw capital market development as a one way street. As the next chapter will demonstrate, once the idea that capital markets can be directly controlled had disappeared, the only option was to influence the market by attempting to alter its perceptions. GEAR was then inevitable.

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<sup>150</sup> *Mail and Guardian* “South Africa’s Exchange Controls- Easy Does It” Johannesburg: February 7, 1997.

## **Chapter VI**

### **GEAR**

#### **A. Fashioning GEAR**

Even before the implementation of the RDP, forces had begun to align themselves against the GNU's strategy. South Africa's business community, along with the IMF and the World Bank, envisaged a somewhat different development track for the country. In 1995, the liberalization of capital controls had bared South Africa to the power of international finance. As the dominant ANC faction would not consider a reversal of these measures, many other groups began to ponder a new policy they hoped would both promote domestic growth and assuage investors.

South African business, a wary participant in RDP proceedings, acted first. In February of 1996, the South Africa Foundation, more or less a reincarnation of the old South African Chamber of Commerce, released a document titled *Growth for All*. It included all the trappings of the most rigorously neoliberal adjustment programs. The document began with a diagram titled "How Economies Grow", a theory based upon success in four areas: 'policies encouraging foreign capital' (reduction of capital controls), 'policies encouraging domestic saving' (lower asset and corporate taxes), 'policies encouraging labor absorption' (curtailment of wage growth and more flexible labor regulations), and 'effective education and training programs'.<sup>151</sup> Opening with a quote by the economist Jeffrey Sachs, the document demonstrated the South Africa Foundation's acumen in creating the illusion that actors across the middle of the ideological spectrum supported its mission.

It also demonstrated the advantage of being the first mover; the SAF's report would be used by somewhat overwhelmed ANC officials as a jumping off point for the retooling of economic policy. The unions operated in 1995 and 1996 under the impression that the RDP would define policy in perpetuity. The SAF's document

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<sup>151</sup> South Africa Foundation *Growth for All* Johannesburg: February 1996.

directly challenged that notion with its recommendations for labor market reform. It proposed a ‘two-tier’ labor market; one for those already employed (governed by the existing regulations), and a more ‘flexible’ market for new hires in which employers could fire workers for any ‘commercial’ reason with no advanced notice and in which there would be no minimum wages (there was no national minimum wage, but labor had negotiated minimum wages in many sectors).<sup>152</sup> COSATU did not directly respond to this document, despite that it quickly began to provoke discussion within the ANC. With mounting rand instability as the backdrop, the SAF report was the rock upon which GEAR would be built.<sup>153</sup>

A small team, led by newly inaugurated Finance Minister Manuel and Deputy President Mbeki, assembled in early 1996 to draft what would come to be known as the Growth, Employment, and Redistribution program. While President Mandela was aware of the project, he would have very little input until late in the process.<sup>154</sup> Instead, Moss Ngoasheng, a famous freedom fighter and Mbeki loyalist in the Deputy President’s office, would be the ANC executive representative present during all negotiations.

The ANC economics department, still understaffed in 1996, tapped a group of outside economists to do most of the work on GEAR.<sup>155</sup> This team was comprised of analysts from many spheres, but all were of one ideological bent: a slightly tempered neoliberalism. These included two economists from the University of Stellenbosch, the traditional seat of the Afrikaner intelligentsia (although not the more extreme factions of Afrikanerdom). Otherwise, the core panel was comprised of two officials of the Development Bank of Southern Africa,<sup>156</sup> two professors from the University

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<sup>152</sup> South Africa Foundation *Growth for All* Johannesburg: February 1996.

<sup>153</sup> Bruggemanns, Cees. *Change of Pace: South Africa’s Economic Revival*. Johannesburg: Witwatersrand University Press, 2003. p. 72

<sup>154</sup> Taylor, Ian. *Stuck in Middle GEAR: South Africa’s Post-Apartheid Foreign Relations*. London: Praeger, 2001. p. 80

<sup>155</sup> Padayachee, Vishnu. “Progressive Academic Economists and the Challenge of Development in South Africa’s Decade of Liberation” *Review of African Political Economy* 25:77 (September 1998)

<sup>156</sup> During apartheid, the DBSA was charged with indebting Southern African countries to South Africa, in order to render the black-run states dependant upon Pretoria.

of Cape Town and one from the University of Durban, one official from each of the ministries of Labour, Finance, and Trade and Industry, two Reserve Bank economists, and two World Bank economists.<sup>157</sup> There were no COSATU or SACP representatives in the room. The ANC released the document on June 14, 1996, as a *fait accompli*.

Mandela and Mbeki masked the great transformation embodied by GEAR by claiming that it merely used numerical targets to build upon the RDP. COSATU elicited a confused response to this perfidy, and betrayed its own partial seduction by the free market ethos assaulting it from Pretoria and abroad. In 1996, the union movement released the *Social Equity and Job Creation* document, marking the first time that it tacitly endorsed certain liberal prescriptions. This might not be evident upon a first reading. However, it focuses on supply-side management at the expense of demand, changing the analytical framework from Keynesian to neoclassical.<sup>158</sup> It thus marks a disconnect from RDP discourse and sets the stage for COSATU's conflicted acceptance of GEAR.

## B. GEAR Targets: Quantitative and Ideological

Contrary to RDP practice, GEAR delineated numerical targets in nearly every area. It drew its predictions from pieces of three econometric models; one created by the SARB in the early 1990's, one by economists at the University of Stellenbosch, and one by the World Bank. These returned fairly rosy results, given adherence to certain rules (and a healthy dose of fortune). The GEAR-less scenario projections, based on an extrapolation of 1995 RDP-based policies, predicted that growth would stagnate at about 3% annually in the medium term, that inflation would not fall below

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<sup>157</sup> ANC Department of Economic Planning "Growth, Employment, and Redistribution" Pretoria: June 14, 1996.

<sup>158</sup> Lehulere, Oupa. "The Road to the Right: COSATU Economic Policy in the Post-Apartheid Period" In: Thomas Bramble and Franco Barchiesi, eds. *Rethinking the Labour Movement in the New South Africa*. London: Ashgate, 2003. p. 33

9% (inflation ran at ~8% in 1995), and that growth of the labor force would outpace employment growth by as much as 1.5% annually.<sup>159</sup> The model assumed that, in the absence of a new program, the private savings rate would not rise and current account deficits would not fall. Amazingly, the ANC did not encounter much resistance to its pretension that these model predictions were entirely objective.

After accounting for GEAR's adjustments, the model returned a brighter statistical set. GDP growth would rise to 6.1% by 2000, inflation would fall to 7.6%, employment growth would skyrocket to 4.3% annually, and manufacturing exports would increase by 12.5% per year. An alluring program, indeed.

GEAR demanded better facilitation of private sector growth, which would henceforth play the lead role in economic expansion. A 1996 UN report duly asserted that “GEAR closely resembles an IMF structural adjustment program”, although in this case, the program was self imposed.<sup>160</sup> GEAR itself threatened that if South Africa did not tighten its monetary policy, a structural adjustment program would “become inevitable.”<sup>161</sup> It calls for fiscal contraction and a period of austerity; one that would lay the track on which future growth would ride. Austerity meant cutting the budget deficit (which stood at a still fairly bloated 5% in 1996), “careful management of the government wage bill”, scaling back of government services that could be provided by the private sector, and “reduction of the distorting impact of excessive rates of tax” (a less progressive tax code).<sup>162</sup> In the labor market, GEAR envisages greater flexibility. This flexibility is responsible for nearly half of the job growth predicted by GEAR’s econometric model between 1996 and 2000.

GEAR relied upon a very optimistic view of the private sector response to the new program. According to a study by a South African consultancy, overall average

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<sup>159</sup> ANC Department of Economic Planning “Growth, Employment, and Redistribution” Pretoria: June 14, 1996.

<sup>160</sup> As cited in Taylor, Ian. *Stuck in Middle GEAR: South Africa’s Post-Apartheid Foreign Relations*. London: Praeger, 2001. p. 79

<sup>161</sup> ANC Department of Economic Planning “Growth, Employment, and Redistribution” Pretoria: June 14, 1996.

<sup>162</sup> ANC Department of Economic Planning “Growth, Employment, and Redistribution” Pretoria: June 14, 1996.

corporate taxes decreased from 48% to 30% between 1994 and 1999.<sup>163</sup> This tax relief occurred partially in order to satisfy GEAR stipulations. And yet, real private investment growth performed abysmally during the first five years of the GEAR era; it ran at 5.9% in 1995, but averaged only 2.5% between 1996 and 2000.<sup>164</sup> Between 1996 and 2000, the SARB held real interest rates at double, on average, what they had been between 1990 and 1995.

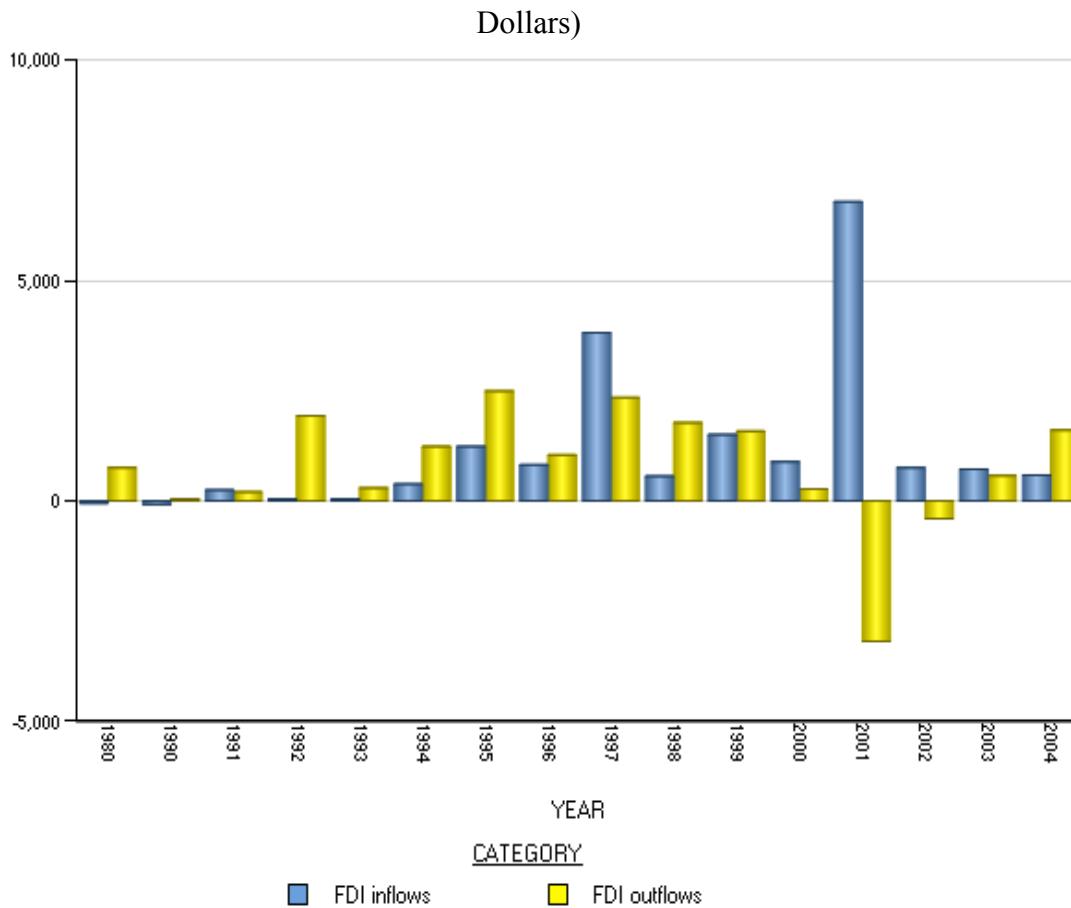
Foreign direct investment continued to perform quite tepidly as well. These numbers are the single most powerful indictment of GEAR. Given South Africa's factor endowments, most observers were perplexed, by 1996, at the lack of foreign interest, particularly in the heavy manufacturing sector. Was not GEAR a strategy tailored to address the concerns of foreign investors? While applauded, GEAR did not catalyze an influx of productive capital.

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<sup>163</sup> As cited in Bond, Patrick. *Talk Left, Walk Right: South Africa's Frustrated Global Reforms*. Scottsville, South Africa: University of Kwazulu-Natal Press, 2004. p. 71

<sup>164</sup> South African Reserve Bank Bulletins

### Foreign Direct Investment: South Africa (Inflows and Outflows- Millions of US



Source: United Nations Conference on Trade and Development (UNCTAD)

As seen in the chart above, FDI outflows from South Africa have eclipsed inflows in three different years since GEAR's promulgation. 2001 appears anomalous; severe depreciation in the value of the rand lowered the price of certain South African investments (such as in land improvement), causing a brief spike in net FDI. But the overall numbers speak for themselves. FDI has remained very weak.

GEAR also presumed was that domestic business would 'rationally' react to the government's newly binding macroeconomic commitments by forgoing exporting capital to invest at home. They did the opposite; the large conglomerates invested heavily in Indonesia, Australia, Brazil, Ghana, China, and New Zealand, among

others.<sup>165</sup> The ANC may have decided to employ in the late 1990's a dubious strategy of 'making room' in the economy by encouraging the domestic conglomerates to invest abroad in 'peripheral' investment categories. Increased FDI would supposedly more than compensate. Once again, rand instability deserves some blame. But the balance is borne by foreign investor's lack of interest in South Africa, despite GEAR.

How did the economy perform overall compared to GEAR's expectations? In short, quite poorly. Employment figures tell much of the story. GEAR predicted annual employment growth averaging 2.9%. The actual figure was -2.1%.<sup>166</sup> South Africa hemorrhaged jobs while the Reserve Bank ratcheted up interest rates, the rand rode a rollercoaster, and the government curtailed spending. GEAR placed much faith in the power of an increase in 'credibility' to occasion an investment boom, reflecting the strict pro-market perspective of the GEAR drafters. One of the incidental effects of GEAR (or perhaps intentional for some people), was that it permanently relegated the labor movement to the sidelines of policy making.

### C. The Power of Numbers and the Legacy of GEAR

At COSATU's Sixth Congress in September of 1997, the union movement condemned GEAR. It howled that GEAR "undermined union solidarity", exposing unions to the frigid liberal winds blown by such bodies as the IMF and the WTO.<sup>167</sup> COSATU delegates motioned during the congress that GEAR be officially considered "anti-developmental". Yet, tellingly, the member unions did not vote to demand that the government rescind GEAR. Instead, they took a wait-and-see attitude, promising to revisit the issue if the predicted benefits did not materialize.<sup>168</sup> When that became

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<sup>165</sup> *Business Map Update* Johannesburg: February 10, 1997.

<sup>166</sup> Streak, Judith. "The GEAR legacy: Did GEAR Fail or Move South Africa Forward in Development?" *Development Southern Africa* 21:2 Published by the Development Bank of Southern Africa. Pretoria: June 2004

<sup>167</sup> COSATU document: "Report of the September Commission on the Future of Unions" (September 1997) can be found at [www.cosatu.org.za](http://www.cosatu.org.za)

<sup>168</sup> Webster, Eddie, and Glenn Adler. "Which Way Labour: COSATU's Sixth Congress" *Southern Africa Report* 13:1 (November 1997)

evident, COSATU's weakness precluded its ability to win a new dispensation. COSATU suffered, in the first instance, from a dearth of institutional capacity. COSATU central never effectively rallied member unions to take mass action against GEAR. Later they would succeed in organizing mass stay-aways to protest privatization, but mid-level union leaders did not rank GEAR very highly on the list of immediate concerns. Instead, member unions often appended complaints about GEAR as afterthoughts to more narrowly targeted entreaties.

Secondly, COSATU misunderstood the forces that caused GEAR's failure. The ANC manipulated this. It sowed confusion about the ramifications of GEAR and effectively paralyzed COSATU's response. In late 1996, the ANC distributed a document called *GEAR, the RDP, and the Role of the State* to all ANC provincial and local officials. It was intended to be a 'GEAR primer'. The document betrays the ANC's largely successful efforts to cloud the nature of GEAR through use of deceptive rhetoric. It reads:

In isolation, certain measures of GEAR are similar to many neoliberal packages... [This is due to the] objective character of certain economic relations.<sup>169</sup>

Of course, none of these relations are objective, and the comment is a flagrant example of globalization-made-me-do-it. But the idea has proved persuasive enough within the lower tiers of the ANC and the labor movement that it has successfully shielded GEAR from sustained attack from the left. Just as the ANC framed its decision to unite the two rands as 'inevitable' and 'objective', so it has characterized GEAR as nothing more than an unalterable fact of post-apartheid life.

If the ANC had hashed out the ideas behind GEAR with its alliance partners, this approach would have failed. However, the ANC courted controversy by developing GEAR secretly, but managed to avoid potentially embarrassing

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<sup>169</sup> Document Circulated by the ANC: *GEAR, the RDP, and the Role of the State* (1996)

recriminations from its allies. Stephen Gelb, an economist involved in drawing up GEAR, described the process thus:

Close affinity with the ‘Washington Consensus’ characterized not only the substantive policy recommendations of GEAR, but also the process through which it was formulated...This was ‘reform from above’ with a vengeance...<sup>170</sup>

The fact that the ANC could disguise GEAR as purely technical, and that COSATU would not vociferously question that assumption, says much about the relative competence of the two organizations. Even more revealing is a 1999 survey conducted by the University of the Witwatersrand’s Sociology of Work center. It found that 67% of COSATU members had never even heard of GEAR.<sup>171</sup>

By 1998, the ANC had made great strides in its offensive against anti-GEAR activists in its own ranks and within COSATU. At the SACP’s 10<sup>th</sup> congress, held in 1998, Mandela warned COSATU and its communist ally that he “would not accept” criticism of GEAR in the contemporary climate of currency instability.<sup>172</sup> COSATU appeared to buckle. The Sixth Union Congress in 1997 was the first in which no member union tabled a resolution to withdraw from the alliance. COSATU central had established greater control over its members while losing clout in Pretoria.

Although COSATU has not been sidelined without protest, the predominant powers within the movement refuse to entertain the notion of a schism with the ANC. In 2001, only three months before COSATU called on members to paralyze industry over the threat of further privatization, COSATU president Willie Madisha put it

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<sup>170</sup> Gelb, Stephen. “The Politics of Macroeconomic Policy Reform in South Africa” Paper Presented at the History Workshop of the University of the Witwatersrand. Johannesburg: September 18, 1999.

<sup>171</sup> Grawitsky, Renee. “Workers Do Not Know What GEAR Is” *Business Day* Johannesburg: March 29, 1999.

<sup>172</sup> McKinley, Dale. “The End of Innocence: The Alliance and the Left” *South African Labour Bulletin* 25:1 (January 2001)

thus: “[analogously, one] does not talk of changing an employer if we find ourselves [in an unfavorable situation].”<sup>173</sup>

But COSATU has still made public its consternation. Many of the strikes recently sponsored by COSATU have represented animosity directed at the ANC as well as employers. A mass stay away in the fall of 2005 featured complaints that 10 years of GEAR had generated corporate tax breaks but had done little to increase the employment rate.<sup>174</sup>

COSATU took particular exception to a “conclave” held in 2000 in Pretoria, which aimed to “stiffen the resolve” of ANC planners in the implementation of GEAR.<sup>175</sup> President Mbeki hosted World Bank President James Wolfensohn, IMF Deputy Managing Director Eduardo Aninat, Trade and Industry Minister Alec Erwin, and a group of American economists, among others. Mbeki and co. discussed strategies for ‘tighter implementation’ of GEAR, including more tax concessions to encourage the heretofore weak level of FDI.<sup>176</sup> No representatives of labor were invited. It would be wrong to claim that these meetings were merely talk shops for reactionary neoliberals; the participants debated faithfully the reasons for the failure of GEAR up until that point and decided to change tack slightly in preparation for a renewed push. Measures were discussed to strengthen property laws, holes in which had made it possible for white landowners to pressure black beneficiaries of redistribution into resale, and to erect capital controls on the model of Chile’s (although this was quickly dropped).<sup>177</sup> Even if the meetings had produced labor-friendly reforms, labor was not at the table and therefore would have had no input into the process. COSATU had not, and would not, regain the presence that it had before GEAR.

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<sup>173</sup> Kindra, Jaspreet. “We Would Not Like to Burn Our Bridges” *Mail and Guardian* Johannesburg: May 11, 2001.

<sup>174</sup> *Sunday Times* “COSATU Threatens Consumer Boycott” Johannesburg: October 9, 2005.

<sup>175</sup> Gumede, William Mervin. “Talking Heads to Stiffen Resolve on GEAR” *Financial Mail* Johannesburg: November 10, 2000.

<sup>176</sup> Ibid. *Financial Mail*

<sup>177</sup> Ibid. *Financial Mail*

## D. The Allure of Acceptance?

At another level, the 2000 conference exemplifies the ANC's relationship, or perhaps desired relationship, with the IFIs and the international financial community. The ANC has quietly reveled in the respect that GEAR has garnered it internationally. These meetings may have been more than a means to an end for Thabo Mbeki, they may have been an end in themselves. In 10 years, the ANC leadership had gone from cramped offices in Lusaka to shaking hands with the president of the World Bank and internationally renowned economists. Such psychological effects are impossible to measure, but the pattern traced by this paper makes one suspect that they inform economic decisions taken by the ANC. In a 2005 interview with the business weekly the *Financial Mail*, advisory consultant and GEAR drafter Iraj Abedian exemplifies the pride in South Africa's macro accomplishments:

Manuel has done what many other countries that have been at it for much longer have failed to do- get their fiscal book in order. South American countries have been at it for much longer, and they still haven't managed to achieve what we have...Putting long term goals ahead of short term political expediency is something few governments have been able to do.<sup>178</sup>

According to the banker Cees Bruggemans, ANC officials have long been excited about the prospect of South Africa becoming the second African country (after Botswana) to earn an A level credit rating from Moody's (although it has not yet done so).<sup>179</sup> These are the types of signals that the ANC interprets to mean that non-white South Africa has proven its mettle.

In 1999, South Africa hosted UNCTAD IX (the United Nations Conference on Trade and Development). Reportedly, President Mbeki expended much energy

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<sup>178</sup> Paton, Carol, and Claire Biseker. "Trevor Manuel: Numbers and Nous" *Financial Mail* Johannesburg: February 25, 2005.

<sup>179</sup> Bruggemans, Cees. *Change of Pace: South Africa's Economic Revival*. Johannesburg: Witwatersrand University Press, 2003. p. 73

ensuring that South Africa would be classified a ‘developed country’ at the conference.<sup>180</sup> As referenced in chapter 1, the World Bank and IMF honored Manuel by inviting him to chair the 2000 WB/IMF annual meetings in Prague. The ANC has striven for inclusion and acceptance among international elites, and has largely achieved it.

Newly confident after approbation of GEAR, the ANC has begun to invest more energy in its relationship with other international bodies, particularly the WTO. GEAR guidelines more than fulfilled South Africa’s WTO requirements.<sup>181</sup> Since South Africa’s ascension to the body at its creation in 1995, it has been among the most active and enthusiastic members in terms of invoking anti-dumping clauses, usually against developed countries. The WTO provides a forum in which South Africa can stand as a supposed equal of developed nations. South Africa’s support for a puissant WTO is not all posturing; the country is an agricultural exporter poised to benefit greatly from an opening of European, American, and Japanese agricultural regimes. Nonetheless, a certain amount of the ANC’s enthusiasm for the WTO stems from the hope that a ‘rules-based system’ will highlight what the ANC (and particularly President Mbeki)<sup>182</sup> considers one of its great strengths: its ability to play by the rules.

COSATU has not always stood quietly by when the ANC has embraced international institutions. COSATU Secretary-General Vavi delivered a biting speech at the WTO summit in Hong Kong this past December, saying:

Little did we know that [South Africa joined in 1994] a world that uses laws and complex regulations to practice an apartheid system over which we [already once] triumphed. This global apartheid uses its parliaments, such as the U.N. Security Council and the WTO, where our voices are excluded or

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<sup>180</sup> Taylor, Ian. *Stuck in Middle GEAR: South Africa’s Post-Apartheid Foreign Relations* London: Praeger, 2001. p. 126

<sup>181</sup> ANC Department of Economic Planning “Growth, Employment, and Redistribution” Pretoria: June 14, 1996; *Sunday Independent* Johannesburg: March 2, 1998.

<sup>182</sup> Taylor, Ian. *Stuck in Middle GEAR: South Africa’s Post-Apartheid Foreign Relations*. London: Praeger, 2001. p. 111

marginalized. It establishes unfair rules that worsen our poverty and unemployment...<sup>183</sup>

COSATU leverages such opportunities as these to take indirect swipes at the ANC's coziness with international institutions. Yet while the union leadership vilifies the international system with broad strokes, it does not often engage with the ANC in detailed discussion of IFI reform.<sup>184</sup> This should be interpreted as another sign of the union movement's poor awareness of the implications of IFI involvement in South Africa. Furthermore, COSATU does not use such fiery rhetoric against its ally, despite that the ANC has promulgated some of the policies that Vavi calls practices of 'global apartheid'. COSATU leaders have been uneasy about the possibility of a permanent rift with the ANC, fearing that they will lose what privileges they still retain.

#### E. Whither GEAR?

Will self-sacrifice in South Africa ever pay off? Murmurs of a revival are being heard currently, but it remains to be seen whether these prove permanent. While the ANC supervised strict macro regulation, as prescribed by GEAR, the economy performed poorly. While GEAR predicted GDP growth of 4.2% annually between 1996 and 2000, it averaged 2.5%. With population growth of over 2%, incomes remained stagnant (not to mention that GEAR's final acronymic tenet, redistribution, has been absent). The government did not even manage to reach the growth rates in public spending envisaged by GEAR (which predicted growth of 7.4% annually), instead interpreting the program such that keeping budget deficits down superceded growth of infrastructure and services spending in importance.

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<sup>183</sup> Vavi, Zwelinzima. Address to the WTO. Hong Kong: December 13, 2005.

<sup>184</sup> Kahn, Brian. "IMF Reform: Debates in South Africa" *South African Labour Bulletin* 25:3 (June 2001)

During the past two or three years, there have surfaced signs of a possible economic turnaround, and the ANC may yet claim vindication. While growth has remained relatively tepid at around 3% between 2002 and 2004, other indicators have improved. Notwithstanding its shortcomings, it is outside the scope of this paper to make a blanket condemnation of GEAR. Inflation has come down. Real interest rates were more than 4% lower on average in 2004 than in 1998 (1998 being, however, the year in which the SARB attempted to prevent capital flight through interest rate hikes).<sup>185</sup> Austerity, along with improved tax collection, permitted the Ministry of Finance to lower the fiscal deficit to 0.8% of GDP by 2001. In 2003, Manuel felt comfortable in loosening the reins and allowed the deficit to rise to 2.5% of GDP. It is expected that the government will allow the deficit to steady at between 3 and 4% of GDP.<sup>186</sup> The ANC has tempered its obsession with fiscal targets, and the thrust of the budget is set to become somewhat more redistributive. Perhaps increased foreign investment will follow after all. Time and again, South Africans point out that their state provides investors services not present in many developing countries, including a judiciary system that rigorously upholds property rights and reliable energy supplies.<sup>187</sup>

However, most of the once imagined benefits of GEAR have not materialized. Currency crises, as examined in chapter 5, must be partially blamed for this failure. The ANC must too shoulder some of the blame. In the mid 1990's, it failed to comprehend that, in a small open economy, liberalization of capital flows can bring both increased FDI and erratic capital movements precipitated by panic. Of course, South Africa's struggles partially lie outside the jurisdiction of the Finance Minister Manuel, particularly in the devastation wrought by HIV/AIDS. One must be cautious in blaming GEAR for the nation's woes. One can, however, state without controversy

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<sup>185</sup> World Bank Development Indicators

<sup>186</sup> Paton, Carol, and Claire Biseker. "Trevor Manuel: Numbers and Nous" *Financial Mail* Johannesburg: February 25, 2005.

<sup>187</sup> *Business Day* "Is South Africa Ready for Investors?- Interview with Ravi Naidoo" Johannesburg: December 13, 2005.

that it has not accelerated South Africa to its potential speed. What should be examined, then, is how the ANC has held together the alliance with labor, despite years of unrealized promises.

Recently, pieces have appeared in the ANC press celebrating the ‘renewed strength’ of the ANC-COSATU alliance. In 2003, Thabo Mbeki authored an airy message in the ANC newsletter *The ANC Today*, declaring the alliance between African labor and the ANC a “natural outcome of the evolution of [South African] society.”<sup>188</sup> This reads as an entreaty to COSATU to desist in its posturing. It also reflects the ANC view that a small dose of well directed praise will placate the union movement. COSATU’s policy research institute, NALEDI, conducted a series of surveys in 2003; one showed that 1 of 3 COSATU members supported a rupture with the ANC, while another indicated that more than 80% of members supported the overall program of the governing party.<sup>189</sup> This confusion mirrors the general inconsistency of COSATU policy declarations.

The ANC has exploited the rhetorical weak spots in COSATU’s armor. In more technical matters such as monetary management, fiscal debt regulation, and trade policy, the ANC has defaulted to occidental norms, claiming that it has little choice. This is a fallacy. Certain officials within the ANC understand that the choice to liberalize capital flows necessitated reforms targeted at the stabilization of international markets. Officials understand too that these decisions were neither objective nor inevitable. But they are not so easily reversed, and liberalization not easily resisted. The IFIs have settled in as expert guides in the transition toward this new South African system. Contrary to the analysis offered by some of their shriller critics, the IFIs did not arrive in South Africa with the intention of breaking labor through manipulation of the ANC. Nonetheless, they are cognizant of their role in such a saga.

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<sup>188</sup> *The ANC Today* 3:37 Pretoria: September 25, 2003.

<sup>189</sup> Pillay, Devan. “Like a Teenager, COSATU, reluctantly concedes authority to its ANC father” *Sunday Times* Johannesburg: September 28, 2003.

The embrace of GEAR eased Pretoria toward consideration of deeper and more profound structural reforms. Chief among these was privatization, both of state owned assets and of service provision. The case of privatization demonstrates well the dynamic of interaction among labor, the ANC, and the IFIs.

## **Chapter VII**

### **Privatization: Investor Services and Hot Water**

In the late 1990's, South Africa became a stage for the conflicts over privatization occurring in many corners of the world. In this thesis, I cannot comprehensively chronicle the South African experience with privatization. Instead, I will concentrate upon one specific case, that of the privatization of water services. Discord over municipal water service provision has impassioned and enraged South Africans, probably to a greater degree than privatization in any other sector. The case also offers much insight into the behavior of the institutions treated in this paper.

Specifically, it provides an example of ANC response to truly concerted pressure from the Bretton Woods institutions. The Washington sisters had, and have, little concrete ability to influence South African domestic policy, as mentioned above. The case of water services privatization is instructive because it is a situation in which the IFI's actually applied pressure to the South African government, despite that they technically lack the capability to do so. The ANC responded by sidestepping the concerns of their labor allies in order to make reforms favored by international institutions.

This case may be that which most strongly demonstrates the ANC's faithful adherence to what it determines to be western economic norms. The final four chapters in this thesis describe ANC policy that has negatively affected COSATU. In some cases, the jury is still out on whether or not the policies will benefit South Africa in the long run (except perhaps in the case of capital account openness, which has brought destabilizing volatility but little else). The case of privatization of water service provision is almost unique here in that such strategies have failed categorically throughout the world, and that the IFIs have shown themselves partially beholden to an extraordinarily organized water lobby. While controversy accompanies the Bretton Woods twins' focus upon macroeconomic stabilization, currency account openness (in the 1990's at least), and labor market flexibility, this is

the only case in this paper in which the IFIs have clearly given South Africa faulty advice. Even COSATU has made much more cogent arguments against privatization of water services than the IFIs have made for it. This indicates that the ANC has been willing to support the views of the international institutions in the face not only of opposition within the Tripartite Alliance, but of a more widespread understanding that the drawbacks of IFI sponsored policy outweigh the benefits. The case of water privatization finds the ANC willing, and sometimes eager, to act on advice offered by the international actors that it respects, in the face of reason and at the expense of the labor movement.

### A. Context

Within the ruling alliance, privatization has been as polarizing as any issue. Roger Ronnie, then General Secretary of the South African Municipal Workers Union (SAMWU), said in 1998 that “[SAMWU does] not hide from the fact that our opposition to privatization is ideological.”<sup>190</sup> The union movement opposes nearly all privatization in principle and in practice. Given that unions tend to be more successful when interacting with the state as opposed to with private firms, this comes as no surprise.

Intense interest in privatization began in the late 1980’s. The NP set up the Government Privatization Commission in 1987; Reagan-Thatcher fever had percolated into South Africa through the wall of sanctions. Eskom (the electric power distributor), and Telkom (the state-owned telecommunications outfit) were to be the first to go. These were two of the largest state owned enterprises (SOEs) in the country, and would again be targeted for privatization after the end of apartheid. At the height of the government’s interest in privatization, early in the current decade, the ANC planned the sale of dozens of SOEs, including Eskom, Telkom, South

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<sup>190</sup> As cited in: Van Driel, Maria. “Unions and Privatisation in South Africa” In Thomas Bramble, and Franco Barchiesi, eds. *Rethinking the Labour Movement in the New South Africa*. London: Ashgate, 2003. p. 74

African Airways, parts of the rail system, and even a stake in Denel, the arms manufacturer.<sup>191</sup>

The conditions leading to the introduction of GEAR led also to a renewed interest in privatization. Six months before GEAR's word became law, the ANC and COSATU hammered out the National Framework Agreement on the Restructuring of State Assets (NFA). All parties and observers agreed that certain SOEs were ripe for sale. International experience showed that public ownership of airlines hampered efficiency, and the government owned a number of firms (such as software companies) and properties which could be privatized with little pain to labor. The NFA included the statement that "ownership does not determine operational efficiency", along with various provisions providing for a safety net for workers negatively affected by state enterprise restructuring.<sup>192</sup> The NFA also stipulated that councils, with representatives from labor and management, be set up to discuss transitional issues in workplaces affected by privatization.

The reversal of RDP commitments and the reorientation toward strict macro stabilization included proposals to privatize much more than the obviously ripe SOEs. Particularly frightening to labor were the rumors that began to circulate about public services privatization. Time and again, the ANC stated that the preferred provider of municipal services was the public sector. But none of these proclamations represented the force of law. Since 2000, the relevant piece of legislation has been the Municipal Systems Act, which COSATU had hoped would include a statement favoring public provision. It did not. Conversely, it did suggest that "service delivery should be as cost reflexive as possible."<sup>193</sup> This echoed the sentiments of the World Bank and the multinational water firms, as will be seen below.

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<sup>191</sup> *African Research Bulletin* 42:4 "South Africa: Privatization in Vogue" (May 2005)

<sup>192</sup> South Africa Department of Public Enterprises. Press Release: National Framework Agreement on the Restructuring of Public Enterprises. Pretoria: February 7, 1996; More specifically, this meant generous severance packages in the event of layoffs, and clauses guaranteeing that unions would not lose legal bargaining power in the transition from public to private ownership.

<sup>193</sup> Republic of South Africa (2000: Act # 32) *Municipal Services Act*

In 1999, the government created the Department of Public Enterprises (DPE), charged with both oversight of SOEs and the preparation of many of them for sale. This move coincided with the height of the ANC's hawkishness about the public deficit, and pressure to sell state assets related to reasons both of efficiency and of revenue. In 2000, with the World Bank and the IMF strongly urging the government to push forward the timetable for privatization, the DPE released its "Accelerated Agenda Toward the Restructuring of State Owned Enterprises". Alec Erwin, the former SACP intellectual and COSATU activist was then (and still is), the Minister of Public Enterprises, and this document strikes a very interesting balance between support for a developmental state and the need for privatization. The document quotes Harvard political economist Dani Rodrik and expresses support for the idea of a mixed economy, as exemplified by Korea. On the other hand, it employs in discussing privatization a technique used by the ANC since GEAR, and by liberal international institutions long before that. It portrays privatization as part of an ideologically neutral and natural progression, stating that "governments have realized that they do not have to provide all services."<sup>194</sup>

The ANC did not respond satisfactorily to COSATU qualms about privatization, and the labor confederation eventually responded by calling a two day mass stay-away for the end of August, 2001. This represented the largest strike in South Africa since the end of apartheid, and between 3 and 5 million workers stayed home. NACTU, the 400,000 member strong union federation allied with the africanist Pan-African Congress, also participated. By that point, South African Airways had already been sold (only to be bought back later), and large shares of Telkom, Eskom, and Transnet (railroad) had been auctioned off. Various municipal services had been farmed out. COSATU feared the replication of situations such as that of Tygerberg municipality in the Western Cape. There, the city had contracted out its refuse service, only to have the contractor drop most of the former workers and hire casual

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<sup>194</sup> South Africa Department of Public Enterprises: An Accelerated Agenda Toward the Restructuring of State Owned Enterprises. August, 2000.

workers for lower pay and no benefits.<sup>195</sup> While the stay-away temporarily disrupted economic activity, it did not immediately result in a rethink of privatization in Pretoria.

Failure upon failure of privatization experiments occurred before the ANC hierarchy began to question the strategy. Only recently has it become evident that the government has backed off from its ‘accelerated agenda’. The DPE has begun to speak more about infrastructure and less about asset sales, despite that Minister Erwin has said that there has been no shift in priorities.<sup>196</sup> It is likely that the ANC fears upsetting its international boosters. This brings us to the case of municipal water privatization, where, for a long time, the ANC adhered to a set of ill-conceived notions espoused by the Bretton Woods institutions, and has paid dearly for it.

## B. International Water Infiltrates the IFIs

Before exploring water services privatization in South Africa, the stage must be set by discussing the unique success that western water firms have had in lobbying the IFIs. The Washington institutions, notwithstanding their shortcomings, are typically considered bulwarks of professionalism, steeled against the machinations of influence peddlers. There are no known cases of direct corruption in the IFIs related to their interaction with water services firms. Nonetheless, they were, to some degree, seduced by firms looking to score contracts in the developing world during the 1990’s and early 2000’s.

A new space for water firms was carved out in the 1990’s, when economists began to insist that water should be treated and priced as a commodity like any other.<sup>197</sup> The predominant view became that water had been too heavily subsidized in

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<sup>195</sup> Van Driel, Maria. “Privatisation Through the Back Door” *South African Labour Bulletin* 22:3 (June 1998)

<sup>196</sup> Boyle, Brendan. “Privatisation Perishes as the Next Big Idea” *Sunday Times* Johannesburg: May 30, 2004.

<sup>197</sup> *The Economist* “Survey: Water” London: July 17, 2003.

the past, and that it should be priced to reflect cost. Water executives often remark something to the effect that ‘god may have given us water, but not the pipes’. David McDonald and Greg Ruiters, two South African political scientists, call this instead “the Malthusian catastrophism that informs mainstream water discourses.”<sup>198</sup>

Movement toward full commoditization of water proceeded apace throughout the 1990’s. The giant multinational water firms, Suez (French), Vivendi (French), Bouygues-Saur (French), and Thames Water-RWE (Anglo-German) among others, had much to gain. In 1996, representatives from Canada and nine European nations formed the Global Water Partnership, which demanded that water be treated as an ‘economic good’. In the same year, the World Water Council (WWC) brought together the World Bank, the EU, the UNDP, and private companies. One of the subjects discussed was how to improve private sector access to water services markets. In 1999, René Coulomb, former director of Suez, the world’s largest water company, was the Vice President of the WWC.

The IFIs have focused undue attention upon water privatization during the last ten years, and this cannot be divorced from their relationship with the private sector. The IMF imposed conditions related to privatization of water services on eight African countries during the 1990’s.<sup>199</sup> Political economist Patrick Bond cites in his 2004 book a study by the International Consortium of Investigative Journalists, which found that of the 20 billion dollars disbursed by the World Bank to water projects between 1991 and 2003, over one third of the funding was tied to conditions related

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<sup>198</sup> Mcdonald, David, and Greg Ruiters, eds. *The Age of Commodity: Water Privatisation in South Africa* London: Earthscan, 2005. p. 9;

There is truth in this: most water is used either by industry or agriculture, and subsidies for domestic water use constitute a fairly small market distortion. But they gives a large return in terms of improvements in public health and the unbottling of potential entrepreneurial energy (especially of women) that comes with the end of reliance upon wells and yard taps. COSATU understands this, as we will see below.

<sup>199</sup> Barlow, Maude, and Tony Clarke. *Blue Gold: The Fight Against the Corporate Theft of the World’s Water* New York Press: 2002. p. 170

to privatization.<sup>200</sup> The IFC funded projects worth tens of millions of dollars in Sao Paulo (Suez), Bolivia (Suez), and Thailand (Thames-RWE). It loaned between 300 and 500 million dollars (depending on how certain funds are classified) to Suez to finance its concession in Buenos Aires.<sup>201</sup> The Argentine project proved disastrous for Suez, as payment collection collapsed during the debacle of 2001/2002.<sup>202</sup>

Coziness between the water industry, western governments, and the IFIs increased throughout in the 1990's. World Bank officials attended meetings held by the WWC, which was based in Marseilles and became largely a creature of the French water conglomerates. The 2003 World Water Forum in Kyoto attracted officials from the World Bank, the IMF, developed world finance ministries, private companies, and a number of people whose presence can only be explained by their connection to the ethereal world that exists between France and its former colonies.<sup>203</sup> Michel Camdessus, the former Managing Director of the IMF, chaired the conference.

The final report produced by the 2003 conference in Kyoto provides the best evidence of the IFIs baffling infatuation (at least until very recently) with multinational firm access to water markets. It proposed a 'Devaluation Liquidity Backstopping Facility', a fund that would compensate multinational firms in the event of severe currency devaluation in the country in which they were operating (as the firms collect revenue in local currency but carry considerable amounts of largely dollar denominated debt). The defense of the proposal stated that it would encourage foreign investment in water by dampening risk. That is undoubtedly true. But

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<sup>200</sup> Bond, Patrick. *Talk Left, Walk Right: South Africa's Frustrated Global Reforms*. Scottsville, South Africa: University of Kwazulu-Natal Press, 2004. p. 156

<sup>201</sup> Ibid. Barlow and Clarke. p. 162

<sup>202</sup> In late 2001, Argentina's currency board system, based upon a 1 to 1 peg of the dollar to the Argentine peso, collapsed. This forced Argentina to declare the largest sovereign default (in nominal dollar terms) in history as the value of the peso plummeted, bottoming out at 25% of the value of the dollar. Suez was then collecting one quarter of what it had collected in early 2001 (if consumers paid at all).

<sup>203</sup> Among these was Alassane Outtara, whose exclusion from the recent presidential race in Cote d'Ivoire nearly resulted in civil war. Officially, he represented a sham institution headquartered in Gabon, the French client-state *par excellence*.

consumers in developing countries would shoulder the cost. The facility proposes that the funds it disburses be repaid over the long-term by the countries hit by the currency crises, and not by firms.<sup>204</sup> These funds would be raised through a uniform water surcharge, essentially a regressive tax. This imposes depreciation related costs entirely upon the countries affected. World Water Forum participants, including chairman Camdessus, must have been deluded to believe that any country would accept such a plan. Most countries look suspiciously upon granting water contracts to private firms; why would they then take a great risk in doing so?

The position of the IFIs has been, until the last couple of years, conspicuously biased toward the concerns of ‘big-water’. In 2001, the World Bank published a working paper titled *Water Challenge and Institutional Response*. In typical fashion, it frames water commoditization as an organic and inevitable process:

The notion of water provision as a public good and welfare activity has given place to the concept of water as an economic good and input in economic activity.<sup>205</sup>

A similar perspective is evident in the World Bank’s 2004 World Development Report. The IFIs are still somewhat pragmatic, proposing subsidies to the poorest citizens of developing countries. Generally, however, they recommended full cost recovery. This has greatly affected the ANC’s outlook and nearly neutralized COSATU’s influence over water policy. Even when IFI policy should be perceived as erroneous and inapplicable to South Africa, the ANC has strained itself to please the international bodies.

### C. Water Privatization in South Africa: Protest and No Profit

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<sup>204</sup> Winpenny, James. “Financing Water for All: Report of the World Panel on Financing Water Infrastructure” Paper presented at the third World Water Forum. Kyoto: 2003.

<sup>205</sup> World Bank *Water Challenge and Institutional Response* (Washington DC: Development Research Group Working Paper, January 2001)

The most famous of the South African water privatization projects has been that of Nelspruit, Mpumalanga province. In it are seen many of the problems that have beset nearly all water privatizations in the country. In 1996, the ANC began to quietly consider piloting a water concession; the timing was not coincidental in light of the burgeoning interest in water at the IFIs. Under apartheid, the Nelspruit municipality contained approximately 25,000 residents, nearly all white. In 1994 the municipality inherited the abutting ‘homeland’, KaNgane, and the population within the city limits instantly rose to 230,000. Residents per length of water pipe also rose by a factor of six, and the tax base rose only 38%, despite that the population had grown tenfold.<sup>206</sup> Poverty, unemployment, and HIV infection rates in Mpumalanga province are all higher than national averages.<sup>207</sup> In 1998, a majority private-owned consortium began to operate the town’s water system.

The Development Bank of Southern Africa (DBSA) and the Municipal Infrastructure Investment Unit, a group founded with money from USAID, prepared the documents used as tender for the private contract. Provincial officials in Mpumalanga were skeptical about the potential for water privatization; purportedly, ANC national officials went over the heads of provincial officials to apply pressure directly to the municipality. ANC national officers, attuned (and often hostage to) international opinion, would brook no interference from the provinces, despite the strongly federal nature of service provision in South Africa.<sup>208</sup> The concessionaire is owned jointly by Biwater (British), Nuon (Dutch), and domestic investors, and operated by Biwater. However, the DBSA initially provided a majority of the funding, effectively subsidizing Biwater’s contract. It hoped to ease the firm into solvency.

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<sup>206</sup> Smith, Laila, Amanda Gillett, Shauna Mottiar, and Fiona White. “Public Money, Private Failure: Testing the Limits of Market Based Solutions for Water Provision in Nelspruit” In: McDonald, David, and Greg Ruiters, eds. *The Age of Commodity: Water Privatisation in South Africa* London: Earthscan, 2005. p. 131

<sup>207</sup> Statistics South Africa

<sup>208</sup> *The Shopsteward (5:6)* “The Campaign Against Water Privatisation” Published by COSATU. (December 1997/ January 1998)

Incentives to private firms have been offered often during the last ten years, typically by the DBSA. Capitalized by the South African government, the Development Bank maintains very close relations with both the ANC and the Bretton Woods Institutions.<sup>209</sup> Research from the Development Bank tends to echo research coming from the IFIs in both choice of topic and in the framing of normative judgments as objective ones.<sup>210</sup>

The 30-year Nelspruit concession has resulted in a certain number of successful outcomes. The concessionaire has laid 100km of new water mains (mostly with public money), created over 1000 temporary jobs, and instituted some ‘innovative methods’ when confronted with non-payment (such as leaving arrears off of bills so that consumers do not feel overwhelmed).<sup>211</sup>

Notwithstanding the benefits of privatization in Nelspruit, the negatives have outweighed the positives. These drawbacks are not primarily the fault in this case of the private concessionaire, but of the ANC, which did not recognize the incompatibility of privatization with Nelspruit’s profile. Furthermore, the ruling party lacked, and lacks, the infrastructure necessary to regulate a private monopoly contract. In 1999, the Nelspruit city council set up the Compliance Monitoring Unit and charged it with ensuring the good-faith implementation of the contract by Biwater. It was composed of municipal officials, DBSA officials, and representatives

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<sup>209</sup> In one particularly instructive case, Ian Goldin, the chief economist at the DBSA at the time, refused a loan to a municipality to expand water supply, and then signed off on a much larger loan to a private firm to do the same job. Goldin went on to become the head of the European Bank for Reconstruction and Development;

See:

Bond, Patrick, Against Global Apartheid: South Africa Meets the World Bank, IMF, and International Finance University of Cape Town Press, 2003. p. 58

<sup>210</sup> A recent DBSA paper titled *What We Have Learnt from Post-1994 Innovations in Pro-Poor Service Delivery in South Africa* cautions policy makers against being “idealistic” in assuming that the public sector possesses all the tools to provide municipal services; See: Berger, Ronelle. “What We Have Learnt from Post-1994 Innovations in Pro-Poor Service Delivery in South Africa: A Case Study Based Analysis” *Development South Africa* 22:4 Published by the Development Bank of Southern Africa. (October 2005)

<sup>211</sup> Smith, Laila, Amanda Gillett, Shauna Mottiar, and Fiona White. “Public Money, Private Failure: Testing the Limits of Market Based Solutions for Water Provision in Nelspruit” In: McDonald, David, and Greg Ruiters, eds. *The Age of Commodity: Water Privatisation in South Africa* London: Earthscan, 2005. p. 135

of the concessionaire. After a short time, its meetings began to decrease in frequency. Eventually, there was a period of approximately one year when a lone, overworked official monitored the contract all by himself, followed by six months when the contract was not monitored at all.<sup>212</sup> Given the scope for abuse of monopoly private concession contracts, this constitutes a failure of grave implications for the ANC. It is not at all clear that the governing council of a struggling municipality such as Nelspruit (which, after the elections of 2000, was reborn as the Mbombela municipality, with a population of nearly 600,000)<sup>213</sup> has the capacity to effectively monitor a large scale privatization contract.

Nor is for-profit water provision appropriate in an extremely poor district such as Mbombela. Responding to consternation among citizen's groups, unions, and residents throughout the country, the government implemented a 'free water policy' in June of 2001. Since then, every household has been entitled to 6 kiloliters of free water per month. Assuming an average household size of 8 (and this is the official estimate in South Africa, where extended families often live together), each person receives approximately 25 l per day. The World Health Organization estimates this to be the bare minimum required to sustain life, but recommends 100 l per person per day if 'full hygiene' is to be maintained. In speeches and campaign literature, the ANC has championed free water as one of its pioneering pro-poor measures.

How free is 'free water'? In Mbombela, the municipal council, which still controls water tariffs under the concession, has raised rates in higher consumption brackets in order to subsidize the free water. This cross-subsidization commences at 20 kl per month, a common level of consumption in even the poorest areas of the municipality, where most residents earn under R1000 per month. If bills for total water usage are paid, they often amount to 10% of the monthly income of poor

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<sup>212</sup> Ibid. Smith, Gillett, Mottiar and White. p. 138

<sup>213</sup> The new municipality now encompasses a number of rural districts. Some of these are represented on the municipal council by local leaders of the Pan Africanist Congress, a relatively radical africanist party strongly influenced by the views of anti-colonialists such as Kwame Nkrumah. The PAC representatives refuse to cooperate with the concessionaire. See: Ibid. Smith, Gillett, Mottiar, and White.

residents.<sup>214</sup> Often, then, water is not paid for. In Matsulu, the poorest sub-district of Mbombela, the Biwater concessionaire reported in 2003 88% of all water as ‘unaccounted for’ (most of it stolen by residents through illegal connections).<sup>215</sup>

These losses have compromised Biwater’s revenue collection, and neither it nor the ANC-run council have shown themselves capable of plugging the holes in the water network opened by desperate residents. Biwater has not yet profited from the concession, even though public bodies have provided most of the funding for the concessionaire and have shouldered most of the risk. These types of results have reproduced themselves across the South African water privatization experience. In the KwaZulu-Natal town of Dolphin Coast, the town council divested in 1999, to a great extent, the responsibility for water provision to a consortium owned by Saur, a subsidiary of the French giant Bouygues. Built into the contract was a provision that water prices would not be raised for five years. Nonetheless, Saur managed to raise prices two years later, after having the contract rewritten in its favor.<sup>216</sup> It did this by essentially holding the town hostage. After Dolphin Coast divested, it could not easily resume public provision. It caved to the firm’s demands, fearing the chaos that might ensue after a sudden restoration of public control for which there was no longer bureaucratic infrastructure. The Nonkobe municipality on the Eastern Cape recently won a court battle against its private provider, claiming that the firm had extorted the city for the same reasons that it was possible for Saur to rewrite its contract in Dolphin Coast. Water privatization has proven itself both a politically bankrupt and financially bankrupting strategy.

The Department of Water and Forestry (DWAF) might be expected to complement municipal efforts to provide a minimum level of water services in every

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<sup>214</sup> Smith, Laila, Amanda Gillett, Shauna Mottiar, and Fiona White. “Public Money, Private Failure: Testing the Limits of Market Based Solutions for Water Provision in Nelspruit” In: McDonald, David, and Greg Ruiters, eds. *The Age of Commodity: Water Privatisation in South Africa* London: Earthscan, 2005. p. 138

<sup>215</sup> Ibid. Smith, Gillett, Mottiar, and White p. 142

<sup>216</sup> Louw, Irene. “Facing the Double-Edged Sword of Water Privatisation” *Business Day* Johannesburg: September 18, 2001.

district, but this has been hampered by the ANC's subscription to the view that water should be treated like any other commodity. In 2003, an *Economist* survey on water beseeched governments to consider water as an economic good, complaining that water is "colossally underpriced."<sup>217</sup> As seen above, this perception has been strongly promoted by the World Bank, whose word is often currency to the ANC leadership.

DWAF does provide some municipal subsidies, and has funded some innovative projects that extend service provision within a public framework. In Odi, a former part of the Bophuthatswana 'homeland', the parastatal Rand Water board initiated a process that would have eventually led to privatization unless reversed. After a SAMWU strike, the water board reconsidered, and developed a provision strategy that relied upon locally elected steering committees to aid in tariff collection and act as a bridge between the service provider and local communities. Between April 1998, when this plan went into effect, and September 1999, monthly tariff collections rose from R500k to R2 million.<sup>218</sup> In the first year of the Odi project, DWAF provided R42 million in subsidies, addressing some of Odi's immense infrastructure backlog. However, in 2000, the agency declared that it could no longer provide such large subsidies; infrastructure began again to deteriorate and payment rates subsequently dropped.<sup>219</sup>

Myriad demands strain the South African fiscus, and one might ask whether water provision is the best use of revenue, even in terms of targeted poverty reduction. COSATU has made one of the most convincing arguments for high levels of water subsidization. At a mid-2001 meeting of NEDLAC, COSATU tabled a paper arguing that cost-reflexive water pricing is "hostile to micro-enterprise in rural areas."<sup>220</sup> Forcing deprived citizens to pay the full cost of water provision relegates many of them to partial or complete reliance on well water, river water, or illegal

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<sup>217</sup> *The Economist* "Survey: Water" London: July 17, 2003.

<sup>218</sup> Pape, John. "The Odi Agreement: An Alternative to Privatisation" *South African Labour Bulletin* 24:1 (January 2001)

<sup>219</sup> Ibid. Pape.

<sup>220</sup> COSATU Position Paper on Privatization. Unpublished Paper Tabled at NEDLAC. Pretoria: July 30, 2001.

water main connections. All of these are very costly in terms of time and effort, requiring energy and ingenuity that could otherwise be applied to productive enterprise.

COSATU's paper also points out that water privatization constitutes a market failure. Private companies will chronically underinvest in water services, as they capture little of the long term benefit of infrastructure provision.<sup>221</sup> In essence, water services is a public good of such magnitude that private provision is a fundamentally flawed approach. The ramifications for health systems, communities, and the potential for small businesses to flourish in poor areas far outweigh the efficiency gains from privatization. Neither does water lend itself well to commoditization in general. It is difficult to transport, requires large and heavily targeted investment, and is therefore a case of natural monopoly, of which public ones are often less damaging than private.<sup>222</sup> The ANC largely ignored these considerations during the late 1990's and early 2000's, partially due to the pro-cost recovery orientation of the IFIs. Once again, the ANC carefully avoids admitting that it simply follows prescriptions emanating from Washington. Yet the timing of its interest in privatization and the methods employed are unlikely to be coincidentally aligned with those of the international institutions.

#### **D. The ANC Rerouted**

After SAMWU threatened to call a series of strikes, the Nelspruit concessionaire agreed to zero retrenchment and maintenance of wages at previous levels. Biwater did much to assuage SAMWU; it even hired a SAMWU representative to its permanent staff. Biwater's workers have never gone on strike. Typical of the water privatization experience has been that unions, usually COSATU affiliates, have threatened mass action in order to forestall privatization, backing

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<sup>221</sup> Ibid. COSATU.

<sup>222</sup> Mcdonald, David, and Greg Ruiters, eds. *The Age of Commodity: Water Privatisation in South Africa* London: Earthscan, 2005. p. 22

down at the moment of the ANC's agreement to negotiate. In nearly all cases, the unions have failed to prevent privatization, although they have sometimes ensured the maintenance of employment levels. SAMWU has exhibited a great acumen in mounting aggressive anti-privatization media campaigns. The union stoked media interest by accusing the Nelspruit concessionaire of malfeasance during implementation of the contract; the strength of the initial media coverage far eclipsed that when SAMWU retracted the allegations.<sup>223</sup> However, COSATU, the union structure with the best access to Pretoria and the media, has been unable or unwilling to spare much political capital in contesting individual privatization programs in the post-GEAR era. Member unions find themselves largely alone, unable to count on greater than token support from the confederation.

Nonetheless, COSATU protests privatization for two reasons. In the first instance, the union movement fears the job cuts that often accompany privatization, as formerly 'swollen' payrolls are slashed. But even more, the fight over privatization has engaged COSATU in social conflict, and renewed its commitment to the concept of 'social movement unionism'.

The battle that has put the ANC and COSATU at rhetorical loggerheads over water privatization is a good example of this aspect of union action. SAMWU has successfully defended wages, benefits, and jobs to a large degree in the water sector. It and its parent organization, COSATU, are nonetheless quick to point out the incongruity of water privatization in the South African context. The politics of water commoditization are atypical in South Africa. At the end of apartheid, a 'culture of non-payment' pervaded the townships and homelands. Blacks ceased, in protest, to pay the white regime for essential services. Apartheid governments rarely turned off the taps, fearing violent retaliation. Poor, black South Africans therefore look suspiciously on service providers that do not respond personally to members of individual communities, and multinationals naturally fit this profile.

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<sup>223</sup> *Business Day* "In Brief: The Nelspruit town council regrets that 'untruth spread by SAMWU'" Johannesburg: October 21, 1999.

Issues of efficiency are thus often trumped by political concerns. Entrusting the private sector with provision of services is potentially explosive and evokes painful memories. COSATU appears to understand this, while the ANC believed it could traverse this minefield with careful planning. Recently, however, the ruling party has backtracked. There are no new water privatization projects on the table. Those previously signed have turned out to be unprofitable and politically inconvenient for both firms and the ANC. In 1999, the ANC unveiled 'Igoli 2002', an overarching plan for the reformation of Johannesburg's city services. It followed upon a series of studies undertaken by the World Bank on the potential for services reform, proposing privatization or partial privatization of a significant piece of the public sector's charge. One of the first measures of 'Igoli 2002' to be experimentally implemented was the installation of pre-paid water meters, which had residents pay for a certain amount of water at the beginning of the month, with the ability to buy more 'water credits' as necessary. This caused great consternation among communities, unions, and civil society groups, as residents often ran out of credits with many days left in the month and struggled to restore service. The political windfall of the pre-paid water meters was disastrous for the ANC. In 2003, SAMWU explained its opposition to pre-paid meters thus:

[With pre-paid meters], poverty is turned into individual problems with individual solutions, rather than collective problems requiring social solutions.<sup>224</sup>

This aptly summarizes the central tenet of the union opposition to water privatization; the externalities created by water services provision demand public intervention.

The ANC has backed down somewhat from its privatization agenda under great domestic pressure. So too has interest in water privatization in the IFIs subsided.

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<sup>224</sup> As cited in Harvey, Ebrahim. "Managing the Poor by Remote Control Control; Johannesburg's Experiments with Pre-Paid Water Meters" in McDonald, David, and Greg Ruiters, eds. *The Age of Commodity: Water Privatisation in South Africa* London: Earthscan, 2005. p. 129

As with many of the programs undertaken by the government in order to improve its international standing, the international response to the ANC's policy swings has been tepid in both directions. Investors and institutions have made minimal noise over South Africa's stealthy retreat from privatization. Once again, international actors have been quick to make policy recommendations but have neither rewarded South Africa for its reforms (nor punished it for renegeing).

This leads us to the final chapter of this thesis. Under fire over GEAR and privatization, the ANC may now be turning toward a battle on labor's sacred soil. Signs have surfaced that the government is contemplating a wide-ranging labor market reform package. This would shake the foundations of the Tripartite Alliance. Again, pressure to conform to international 'consensus' has played a significant role in the ANC's tentative reorientation. For labor, a great deal is at stake.

## **Chapter VIII**

### **Perseverance: Labor Market Reform**

Among developing countries, South Africa's labor laws are among the most favorable to workers in the world. While some 'middle-income' countries have seen labor legislation rolled back during the past 15 years, the ANC has not yet backtracked on its legal commitments to organized labor.<sup>225</sup> Former unionist Tito Mboweni rode the ANC-COSATU wave into office as chief of the Department of Labour in 1994. He went on to oversee the reconstitution of the South African labor market on lines ostensibly non-racial and non-discriminatory. But the murmurs from within government of a future overhaul of labor laws have grown into a chorus of confident voices, and COSATU may yet see the end of the so-called South African 'worker's paradise'.

In the domain of its greatest preoccupation, COSATU has seen its greatest victories. In the public sector, a COSATU-inspired wage restructuring plan cut the remuneration ratio of the highest paid civil servant class to the lowest paid from 64:1 to 15:1 between 1989 and 1998.<sup>226</sup> It also set a public sector minimum wage of R1000/month, an improvement over the apartheid era compensation that constituted virtual wage slavery.<sup>227</sup> At the same time, 96% of South African public sector employees were unionized, compared to 80% in the UK and 67% in Japan.<sup>228</sup> Events

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<sup>225</sup> Msomi, S'thembiso. "Down and Out in Worker's Paradise" *Sunday Times* Johannesburg: May 25, 2003.

<sup>226</sup> Adler, Glenn. "The Neglected Role of Public Sector Unions" In *Public Service Labour Relations in a Democratic South Africa* Glenn Adler, ed. Witwatersrand University Press. Johannesburg: 2000. p. 18 ;

It must be taken into account that whites held all skilled positions in the apartheid era civil service, and that some blacks came out of the private sector to work in the upper echelons of the public sector after liberation. Thousands of NP appointees were forced into retire in the mid- 1990's. Nonetheless, blacks working in the same capacity as they had under apartheid saw their wages increase.

<sup>227</sup> Ibid. Adler. p. 20

<sup>228</sup> Macun, Ian, and Christine Poulis. "Unions Inside the State". In *Public Service Labour Relations in a Democratic South Africa* Glenn Adler, ed., Witwatersrand University Press. Johannesburg: 2000. p. 101

proceeded likewise in the private sector; the wage gap between blacks and whites narrowed by nearly 10% between 1990 and 2000, even in the absence of the strictly defined adjustments that occurred in the public sector.<sup>229</sup> Certainly, there is much more work to be done. Nonetheless, the combination of union entrenchment on the shop floor and the new legal dispensation produced this bargain, and African labor declared its position morally, politically, and practically unassailable.

But even as COSATU celebrated its formidable victory, it began to encounter resistance. By the late 1990's, the questions being asked by the opponents of the new labor regime were impossible to wish away. Why did the economy fail to absorb nearly all entrants into the job market? Why did business show such a strong bias toward capital intensive production? Rigidities in the labor market were often faulted for these serious shortcomings. The preeminent powers within the ANC, influenced by business and by the analysis of the World Bank and the IMF, now believe it imperative that the labor market be more flexible and more hospitable to small business.

COSATU's position on labor law has been clear and unwavering during the post-apartheid period; the union confederation intends to defend to the last inch its prerogatives. It strikes a reactionary pose when accused by scholars and policy makers of perpetuation of an 'insider-outsider' paradigm in the labor market.

The World Bank and the IMF argue that the labor markets must be liberalized in order to unleash the dynamism that most observers believe the South African economy to be capable of. By the late 1990's, the IFIs had begun to raise these concerns vociferously. In an interview with the author, Trevor Alleyne of the IMF stated that, outside of its core competencies in monetary and fiscal policy, the Fund's chief structural concern regarding South Africa was that of labor market rigidities.<sup>230</sup> This comes despite research from within the IFIs themselves questioning whether

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<sup>229</sup> Burger, Rudolf, and Ingrid Woolard. "The State of the Labour Market in South Africa After the First Decade of Democracy" *University of Cape Town Centre for Social Science Research Working Paper No. 133*. 2005

<sup>230</sup> Alleyne, Trevor. Interview with the author: Washington DC, March 15, 2006.

such rigidity really deserves the attention that it receives. Other research, however, supports the dominant position in Washington; untangling the causes of unemployment and labor market inefficiency is an empirically delicate business, fraught with disagreement over quantitative technique and qualitative assumptions.

The ANC appears torn. It must decide whether to pursue labor market reform and risk a nasty confrontation with allies, or to strike out in a different, less internally controversial path. Recent maneuvers signal that it may be preparing to do both simultaneously. While discussion has heated up over labor markets, the state has begun to publicize its preparation to unveil a comprehensive industrial policy, a first for democratic South Africa. Does this represent a means by which to distract labor from the blow dealt by labor market reform? Or, is it the work of an ANC faction in favor of more interventionist state (led, perhaps, by Alec Erwin)? It is more likely a combination of these two factors. The moment has not yet arrived, and the ANC's motives remain unclear. However, it begs us to examine the Motor Vehicle Industry Development Programme, upon which any future strategy would be based.

If the ANC does decide to reverse the progressive labor reforms of the 1990's, it must be seen as a normative decision. Neither privatization, fiscal austerity, retirement of foreign debt, nor capital account liberalization has jump-started private sector growth. The drive to loosen the labor market might be the ANC's final push to promote growth using techniques sanctioned by the IFIs and the international community that embodies the so-called 'Washington Consensus'.

Despite being rooted in conflicting ideologies, the enthusiasm for the MIDP and labor law reform in the ANC can be partially explained by one of the unifying themes of this thesis. The ANC has endeavored to improve dramatically the international image of South African economic policy and South African business (as well as perhaps to strengthen the image of its own leaders). This pattern would predict both a new labor regime and a more prominent role for high-tech exports.

## A. The South African Labor Market

The apartheid workplace reflected the overarching national political project. Nevertheless, it managed to be particularly brutal, degrading, and inefficient. In factories, it was not uncommon for a black worker to be humiliatingly singled out to wash a white man's car in the parking lot.<sup>231</sup> At the time of liberation, labor and the ANC promised equality, renewal, increased efficiency, and job security. By the late 1990's the labor movement had armed itself with a slew of parliamentary laws. These included the National Economic Development and Labor Council Act (NEDLAC) of 1994, which provided for dispute arbitration by independent judges, the Labor Relations Act of 1995, which redistributed bargaining power from business to labor, the Basic Conditions of Employment Act of 1997, which formalized the new workplace code, and the Employment Equity Act of 1998, which strengthened legal recourse for employees experiencing racism in the workplace.

The country also saw fundamental change beyond the legislative sphere. Although South Africa has not specified a minimum wage, unions and business representatives have agreed through NEDLAC to minimum wages in many industries. In a number of sectors, wages are determined by industrial council agreements, legal accords signed by industry associations and unions. Industrial council agreements and other less rigid agreements cover approximately 25% of the formal labor force, according to COSATU.<sup>232</sup> Some among these are covered explicitly and some by extension, as many agreements extend automatically to non-union workers. There are 81 industrial councils operating in South Africa, and approximately 90% of the agreements spawned by them cover at least some non-

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<sup>231</sup> Von Holdt, Karl. *Transition from Below: Forging Trade Unionism and Workplace Change in South Africa*. Scottsville, South Africa: University of Kwazulu-Natal Press, 2003 p. 32

<sup>232</sup> Mail and Guardian "COSATU 'deeply skeptical' of IMF report" Johannesburg: September 22, 2005.

union workers.<sup>233</sup> These agreements are often criticized for their restrictive nature and associated compliance costs.

Under the provisions of the Basic Conditions of Employment Act, the Department of Labour has also made a number of ‘sectoral determinations’ of wages and benefits, primarily in the service sector. These regulations are subject to the same critiques as the industrial council agreements. Indeed, a look at the sectoral wage schedule for the security services industry (private security guards) breeds some sympathy for detractors; the Department of Labor breaks down security guards into five categories and assigns different pay scales to each category of guard. It is manifestly difficult for the layperson to identify what distinguishes certain categories from others.<sup>234</sup>

These regulations may, however, receive undue attention. The mining sector is not covered by an industrial council agreement. Yet, in its hardest hit sector, gold, employment fell from nearly 400,000 workers to fewer than 220,000 between 1994 and 2000.<sup>235</sup> This was partially related to developments over which the government had little control, including the low price of gold on world markets during the period and the exhaustion of South African mines. Yet these problems were at least partially offset by a weak rand (see chapter 5). A less often treated possibility is that, in the face of rising labor costs, the demands of the Black Economic Empowerment statutes, and falling import duties, mine operators have replaced labor with imported capital equipment. The ANC’s inadequate attention to these sorts of effects will be further explored in the case of the motor vehicle industry.

The South African labor market has exhibited some trends that appear contradictory: falling levels of employment, substitution of capital for labor, rising

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<sup>233</sup> Butcher, Kristen, and Cecelia Rouse. “Wage Effects of Unions and Industrial Councils in South Africa” (Washington DC: *World Bank Policy Research Paper No. 2520*. January, 2001)

<sup>234</sup> South Africa Department of Labour *Basic Conditions of Employment Act- Sectoral Determination 6: Private Security Sector 2001*

<sup>235</sup> Crankshaw, Paul. “Mining and Minerals” in *Geography and Economy in South Africa and its Neighbors* Anthony Lemon and Christian Rogerson, eds. Hampshire, England: Ashgate, 2002. p. 64

wages, and rising labor productivity. The final two can be largely explained by the first two, however. Much of the decline in employment represents retrenchment of unskilled laborers.<sup>236</sup> Between 1990 and 1998, South Africa shed 700,000 low skill jobs while adding 80,000 higher skill jobs.<sup>237</sup> Unions are well entrenched in many sectors, bolstered by the labor legislation of the late 1990's which they frequently brandish to fight retrenchments, wage freezes, and casualization. These things necessarily inhibit the speed of adjustment in the labor market, and the ANC likely now understands them to be the banana in the tailpipe of the South African economy.

## B. The Debate

The summer of 2005 saw the resurrection of a measure once considered unthinkable in post-apartheid South Africa. In June, Deputy Finance Minister Jabu Moleketi suggested to the ANC National General Council the institution of a 'dual' labor market.<sup>238</sup> New hires would be treated very differently from older ones, to which the current regulations would continue to apply. Recall that the South Africa Foundation, the post-apartheid reincarnation of the Chamber of Commerce, proposed similar measures in 1996, to uniformly cool response in Pretoria. Even when GEAR was unfurled, the ANC did not dare to take a potentially explosive stance against the labor regime so cherished by its union allies. Today, the ANC has reversed field, to applause among businessmen at home and observers abroad and to the chagrin of COSATU.

### 1. COSATU's Stance

At first glace, analysis of COSATU's position during this saga does not require a great assay. The union confederation is thoroughly opposed to any proposal

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<sup>236</sup> *Financial Mail* "The Skills Wedge in Unemployment" Johannesburg: October 21, 2005.

<sup>237</sup> South Africa Department of Labour: *State of Skills- 2003*

<sup>238</sup> ANC Discussion Documents: National General Council of 6/29- 7/3. Pretoria: 2005

that reeks of interest in ‘labor market flexibility’. COSATU is the primary beneficiary of the regulations as they stand, and has much to lose if they are reformed along the lines envisioned by Trevor Manuel and the IMF, among others.

When challenged on the point of labor market structure, COSATU reacts swiftly and testily. The IMF’s latest Article IV consultation for South Africa, published in September 2005, dedicated a section of the “Selected Issues” paper to the conclusion that the structure of the South African labor market impeded growth and contributed greatly to unemployment. Union spokesman Paul Notyhawa, likely at the behest of the indefatigable COSATU Chief Economist Neva Makgleta, responded by referencing a different document, one published by the South Africa Small Business Partnership (a pro-business group) in June of 2005. That paper found that, in surveys, small businesses cited weak demand and lack of supply-side confidence ahead of labor legislation on a list of effects dampening growth. The study also found that, out of 794 small business owners surveyed, only 10% felt that high labor costs were a key constraint to employment growth.<sup>239</sup>

Since the World Bank published its 2004 *Cost of Doing Business* report, COSATU has been increasingly criticized for its cantankerous attitude. The Bank developed an index for a number of measures of labor market rigidity. South Africa scored particularly high (poorly) in a number of categories, especially in ‘difficulty of hiring and firing’, where it scored above sub-Saharan Africa as a whole, the worst region. South Africa’s overall ‘rigidity of employment’ score was 52. This compared unfavorably with East Asia and the Pacific (24), the Middle East and North Africa (38), and even Europe (41), notorious for its labyrinthine labor regulations.<sup>240</sup> To boot, a recent Economist Intelligence Unit survey ranked South Africa’s labor market

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<sup>239</sup> *Mail and Guardian* “COSATU ‘deeply skeptical’ of IMF report” Johannesburg: September 22, 2005.

<sup>240</sup> World Bank *The Cost of Doing Business* (Washington DC: Survey and Working Paper. 2004)

as the least flexible of 60 countries studied.<sup>241</sup> COSATU's response to these analyses has been categorical, asserting that the studies are flawed.

While much is at stake in this debate for COSATU members, it is conceivable that COSATU's response has been shortsighted. The union movement has been shrinking since liberation, following the downward trend in formal employment and 'smokestack' employment in particular. An uptick in employment rates, as well as a greater ability to recruit service employees (many of whom are casual workers under the current system) could aid in reversing the shrinking of the membership role. New regulations could potentially aid the union movement in both of these areas. COSATU must proceed cautiously, as its current stance gives some credence accusations that it perpetuates a system 'by, of, and for insiders'.

## **2. The IMF and the World Bank: Unsteady Consensus**

The Bretton Woods institutions are not ideologically monolithic. This is easily evidenced by the row caused by Joseph Stiglitz during his tenure as the World Bank's Chief Economist, when he championed debt reduction for certain countries and a host of micro measures that had not previously been foci of the institutions. Many Bank and Fund analysts have become apologetic about some of the harsher measures favored during the 1980's and 1990's.

The debate over the explanatory power of South African labor market structure also brings to light discord within the IFIs. For the time being, the faction heavily weighting labor law as a factor in unemployment and sclerotic growth appears to be ascendant. A volume recently released by the IMF chronicling the first ten years of post-apartheid South Africa estimates that between three-quarters and

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<sup>241</sup> Sewell, Mike, and Zobuzwe Ngobeze. "Study Ranks SA Worst for Labour Law Flexibility" *Business Report* Johannesburg: September 3, 2005.

one percent of GDP is lost annually to labor market related bureaucracy.<sup>242</sup> The document urges concerted reform.

The study that informs much of the analysis of South African labor law within the IFIs dates from 1998, when T. Paul Schultz, a professor of economics at Yale, and Germano Mwabu of the University of Nairobi coauthored a study that appeared in the *Journal of Industrial and Labor Relations*. They found that the benefits that accrued to african union members were causing gross inequity and inefficiency in the labor market. In the bottom decile of the african income distribution, union membership was associated with higher wages by nearly 150%. At the top of the wage distribution, the discrepancy narrowed to about 20%, still a significant figure.<sup>243</sup> On average, union membership predicted a 60% difference in wages over non-union members in the same employment, and the gap widened further when union members were strictly compared with non-union workers not covered by an industrial bargaining agreement. This report relied on survey data from 1993, before the enactment of the labor regime so favorable to unions. Proponents of the results of this study assert that the wage discrepancies described above cannot generally have narrowed very much, given the post-1994 legal climate. World Bank and IMF analyses frequency cite this, along with another World Bank study that came to similar conclusions, by Bruno Boccara and Peter Moll.

This appears somewhat incongruous when confronted with a 2001 World Bank paper that contests Schultz and Mwabu's findings. Kristen Butcher and Cecilia Rouse found that, on average, african union members earned 20% more than non-union africans in the same jobs, an estimate only one third as large as Schultz and Mwabu's. Butcher and Rouse explain the discrepancy thus: Schultz and Mwabu did

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<sup>242</sup> Arora, Vivek and Luca Antonio Ricci. "Unemployment and the Labor Market" In: *Post-Apartheid South Africa: The First Ten Years* Michael Nowak and Luca Antonio Ricci, eds. (International Monetary Fund. Washington DC: 2006)

<sup>243</sup> Schultz, T. Paul, and Germano Mwabu. "Labor Unions and the Distribution of Wages and Employment in South Africa" *Journal of Industrial and Labor Relations* 51:4 (July 1998)

not control for workers' industry and occupation when making their estimates.<sup>244</sup>

Essentially, Rouse and Butcher accuse Schultz and Mwabu of analytical error. Tucked away at the back of Schultz and Mwabu's paper is a table in which regressions control for workers' occupation; it indicates that the union/non-union wage spreads are very similar to those calculated by Butcher and Rouse.

Butcher and Rouse's findings had the potential to reframe the acrimonious debate on labor reform, if they had not been largely ignored. Their paper concludes that:

To increase employment, policies in South Africa should focus on increasing competition among employers within sectors, rather than increasing competition among workers by trying to reduce union power.<sup>245</sup>

Nobody, other than COSATU, claims that South African labor law does not contribute, at least slightly, to the stratospheric unemployment rate. But the claim that labor market structure is responsible for a great tranche of a rate estimated at above 40% is polarizing, and probably reflects ideological bias.

The ANC, for one, certainly believes that other effects are at work. The ANC may have endeavored to 'thin' the presence of domestic conglomerates in South Africa by loosening capital controls, as mentioned above. The ruling party comprehends to some degree the damage caused both by the oligopolistic nature of South African business and the apartheid legacy of partiality toward capital-intensive production. In contrast, the World Bank and the IMF have continued to recommend labor reform, and only sporadically talk of reforming the business sector. In an interview, Dr. Alleyne of the IMF could not recollect any discussion within the Fund

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<sup>244</sup> Butcher, Kristen, and Cecelia Rouse. "Wage Effects of Unions and Industrial Councils in South Africa" (Washington DC: *World Bank Policy Research Paper No. 2520*. January, 2001);

Researchers typically control for occupation and industry so that their work will roughly resemble an experiment in which random workers are made union members without changing their occupation.

<sup>245</sup> Ibid. Butcher and Rouse.

of business sector dynamics during his time working on South Africa. A World Bank Africa Region paper, published in 2001, attributes many problems to labor law and agreements, but also avers that “one economic legacy of apartheid is a structure of production that is fundamentally inconsistent with the country’s factor endowments, most notably in the phenomenon of high capital intensity in the presence of abundant labor.”<sup>246</sup> The World Bank’s private investment arm, the International Finance Corporation, complains that it has trouble identifying small and medium sized South African firms in which to invest.<sup>247</sup>

From the standpoint of the IFIs, the ailments and elixirs remain the same; labor law must change if South Africa is to escape stagnation. The 2000 IMF Article IV consultation document states that in times of downturn, South African employers bear the brunt of adjustment, due to the rigidity of labor law.<sup>248</sup> This specific comment prompted a flurry of COSATU vitriol. COSATU asked how this conclusion stood up to the fact that many of South Africa’s largest companies shed thousands of workers during the 1990’s, and then hired (or rehired) casual workers to fill their positions. In 2005, the counsel remained the same; the IMF largely blamed labor law for the counter-intuitively capital heavy nature of production.<sup>249</sup> This again caused COSATU leaders to become irate and attack the IMF for ignoring apartheid history and making the same policy recommendations to all countries in similar statistical categories.<sup>250</sup> The IMF fired back. Saul Lizondo, an African Department advisor, wrote in a *Business Day* (Johannesburg) editorial that COSATU had grossly and

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<sup>246</sup> Lewis, Jeffrey. “Reform and Opportunity: The Changing Roles and Patterns of Trade in South Africa and SADC”. (Washington DC: *World Bank Africa Region Working Papers No. 14* March, 2001)

<sup>247</sup> World Bank *Country Assistance Strategy: South Africa* ( Washington DC: Publication #19665, 1999); Katzenellenbogen, Jonathan. “World Financial Body Struggles with South Africa” *Business Day* Johannesburg: March 26, 2001

<sup>248</sup> International Monetary Fund, South Africa: 2000 Article IV Consultation: Selected Issues (Washington DC: 2000)

<sup>249</sup> International Monetary Fund, *South Africa: 2005 Article IV Consultation: Selected Issues* (Washington DC: 2005)

<sup>250</sup> *Mail and Guardian* “COSATU ‘deeply skeptical’ of IMF Report” Johannesburg: September 22, 2005.

“unfaithfully” misrepresented the IMF’s perspective.<sup>251</sup> There is little common ground in this conflict between labor and the IFIs. It falls to the ANC to decide whether to favor its internal constituency or its international boosters.

### **3. The ANC: Marching on in Liberal Lockstep?**

In a 2003 article, two British academics compared Thabo Mbeki’s South Africa to Fernando Henrique Cardoso’s Brazil and Carlos Menem’s Argentina, in that the governments of each have both protected relatively small union constituencies while widely pursuing liberalization.<sup>252</sup> The ANC has indeed followed this path up until now. But it is unclear whether they will resist the international siren call any longer. Throughout the 1990’s, groups of various stripes called for relaxation of the labor regime, but none of their ideas gained much traction in Preotria. In 1998, even Cyril Ramaphosa, former NUM secretary and labor movement deity, was already cautioning that “the recent procession of labor enactments could be burdensome and so affect job creation.”<sup>253</sup> One must note, however, that Ramaphosa had by that point defected from the labor movement to become the Chief Executive of South African Breweries.

The atmosphere within the ANC has changed recently, although only at the top of the party and not necessarily in the bureaucracy or in the legislature. This disjuncture between different levels of the party speaks to the tendency of the ANC elite to internalize international policy consensus, and then inject it into a domestically focused bureaucracy. The summer of 2005 marked a turning point; top ANC officials stated that the party would perform research related to and probably soon introduce a labor reform package. Deputy Finance Minister Moleketi let the

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<sup>251</sup> Lizondo, Saul. “Not the IMF’s Way” *Business Day* Johannesburg: October 3, 2005.

<sup>252</sup> Catchpole, Leslie, and Christine Cooper. “Neoliberal Corporatism: Origins and Implications for South Africa” In: Thomas Bramble and Franco Barchiesi, eds. *Rethinking the Labour Movement in the New South Africa*. London: Ashgate, 2003. p. 16

<sup>253</sup> Crotty, Ann. “Ramaphosa Calls for Balanced Labour Laws” *The Star* Johannesburg: June 30, 1998.

proverbial cat out of the bag in June, when he implored the ANC to closely examine the “insider-outsider model of the South African economy.”<sup>254</sup> During the fall of 2005, Trevor Manuel often cited the IMF’s 2005 Article IV Selected Issues section on labor market reform as an indication that the time had come to embark on a reform program. Manuel’s rhetoric has also begun to feature such formerly taboo terms as ‘labor aristocracy’.<sup>255</sup> The Finance minister has commissioned a joint Department of Labour-World Bank research effort to quantitatively determine the cost of the labor market regulation as it exists, ostensibly in preparation to take the next step.

By contrast, documentation coming out of other ANC departments has exhibited less enthusiasm for reform. The Department of Trade and Industry (DTI) released, in 2005, a report written by mid-level bureaucrats that balked at rewriting the labor laws. It advocated that South Africa avoid the harshness of the ‘Anglo-Saxon’ labor market in favor of a hybrid of the ‘Germanic’ and ‘East Asian’ labor regimes.<sup>256</sup> This method of classification vastly oversimplifies the labor regimes of European and Asian countries.<sup>257</sup> Nonetheless, South Africa currently represents an amalgamation of so-called Anglo-Saxon and Germanic practices. Trevor Manuel envisages a system closer to the Anglo-Saxon model, while DTI proposes an opposing course. We will see what emerges. But if recent history is any guide, the top officials at the Department of Finance will override the wishes of DTI.

What would be the dimensions of a new labor market dispensation? The outlines are becoming clearer: elimination of agreements that extend benefits to non-

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<sup>254</sup> Moleketi, Jabu. Remarks at the ANC National General Council. Pretoria: July 1, 2005.

<sup>255</sup> Boyle, Brendan. “Manuel Labouring his Point” *Sunday Times* Johannesburg: October 10, 2005.

<sup>256</sup> South Africa Department of Trade and Industry *South African Labour Market: International Benchmarking Against Selected Economies 2005*

<sup>257</sup> For the purpose of explaining these distinctions, it suffices to define an ‘Anglo-Saxon’ labor market as one in which employers largely set wage rates and hire and fire at will, a ‘Germanic’ market as a series of labor-business contracts facilitated and mediated by government, and an ‘East Asian’ market as one in which government both manages skill development and ensures that workers are decently paid in long-term employment. Naturally, these distinctions would not stand up to a rigorous analysis of individual country practices. However, they help to show that there are numerous and contrasting approaches to labor market regulation within the ANC.

union workers or union members at non-participatory companies, curtailment of wage growth in both the public and the private sectors, simplification of the hiring and firing processes, the end of minimum wages, and a dual labor market (as described above).

Would labor reform spur growth and tackle unemployment? It is difficult to say. Generally, the World Bank estimates that a drop of 10 points in its labor market inflexibility meter results in a decrease in unemployment rates of between 0.5 and 1%.<sup>258</sup> This certainly does not predict that South Africa would make great inroads into unemployment through labor reform (although the less technical comments in the IMF's Article IV document imply that they would). Reform must be part of a wider program. But will it be? Here we should examine the Motor Vehicle Industry Development Programme (MIDP) as a case of industrial strategy that does not encourage employment growth, and may even hamper it. The reasons for the ANC's devotion to this program are manifold, and they square quite well with the argument of this paper.

### C. The MIDP: An Engine for Growth?

In South Africa, the MIDP receives great acclaim. The ANC, the media, and businesses refer to it as a success. Industrial strategy is generally anathema to the IFIs. They have disapproved of the MIDP, although only lightly. COSATU's position has wavered; the organization is at once in favor of subsidization and suspicious that money is being disbursed to capital-intensive sectors. Regarding its concern, the union movement may very well be correct. The ANC showcases the MIDP as a

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<sup>258</sup> World Bank *The Cost of Doing Business* (Washington DC: Survey and Working Paper, 2004);

This estimate is not specific to South Africa; it largely reflects analysis for countries with unemployment rates of less than 10%. If these predictions are to be believed, South Africa could expect to see a larger fall in unemployment rates, on the order of 3 or 4%. Under this model, then, South Africa's unemployment rate could drop from 40% to 36% over the medium term through labor market reform.

model program, despite the misgivings of many groups. Purportedly, the ANC, in an effort led by Deputy President Phumzile Mlambo-Ngcuka, plans to unfurl a more expansive industrial strategy based on the MIDP.<sup>259</sup>

The MIDP visibly contradicts the liberal progression of the ANC's rule. It cannot be seen purely as a means of pandering to labor, as COSATU's response to the program has been lukewarm. In a wider context, however, the ANC sees it a pro-labor measure, as it expects the MIDP and other industrial programs, like the Spatial Development Initiatives (SDI), to be engines of job growth. In motor vehicles, this job growth will supposedly occur while exports grow, establishing South Africa as a major player in an industry the success of which is traditionally conflated with high levels of development (although this idea has largely been refuted). Yet there is mounting evidence that the program negatively affects overall employment. It represents highly capital-intensive production, with most of the machinery used imported from abroad.<sup>260</sup> The IFIs have paid little attention to the program; it is not clear why.<sup>261</sup> Therefore, fear of disapproval in Washington need not be a driver of policy. The ANC has a 'free hand'.

The government launched the MIDP in 1995, aiming to reorient toward export production an industry that had been highly protected under apartheid. Local Content Schemes, which had specified the amount, by weight, of domestic components that had to be used in South African automobiles, were abolished. Today, the industry is

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<sup>259</sup> Dawes, Nick. "State Set for Dramatic Industrial Intervention" *Mail and Guardian* Johannesburg: September 2, 2005.

<sup>260</sup> Flatters, Frank "From Import Substitution to Export Promotion: Driving the South African Motor Vehicle Industry" Paper Presented at the Forum on Trade and Industrial Policy Strategies. Muldersdrift, South Africa: September 9, 2002.

<sup>261</sup> That the IFIs do not condemn the MIDP in their literature is somewhat puzzling. The institutions typically stand against micro-management of industrial policy. The MIDP is a clear case of 'picking winners'. It is, however, an improvement (from the perspective of the IFIs) over the apartheid era motor industry policy, which was a classic example of Import Substitution Industrialization strategy. The new MIDP combines ISI with export promotion and progressively falling tariff rates (even if some other forms of protection have risen). Perhaps the IFIs will become indignant if the ANC rolls out a more comprehensive industrial strategy.

quite large, accounting for over 5% of GDP.<sup>262</sup> Exports have grown rapidly since 1995, when import protection began to fall. Between 1997 and 2000, exports of ‘light automobiles’ (personal vehicles) rose from 10,000 to 58,000 annually.<sup>263</sup> Most domestically produced vehicles are built by subsidiaries of multinationals; Nissan, BMW, Volkswagen, Daimler-Chrysler, and Toyota all operate in South Africa. The country is responsible for around 80% of Africa’s vehicle production, making it a formidable force in the international vehicle market.<sup>264</sup> Nonetheless, South Africa remains a net importer of vehicles, something which the ANC hopes to correct in the future.

Other numbers tell a somewhat different story, however. While exports have grown, total production has fallen; between 1990 and 2000, annual production decreased from 335,000 to 277,000 units.<sup>265</sup> This is not surprising, as the motor vehicle industry has been exposed more profoundly to international market pressure under the MIDP. Tariffs have fallen and other restrictions have been lifted across the complex industry regime.

More importantly for our purposes, industry employment has fallen significantly. The employment pinnacle was reached in 1988, at nearly 100,000 workers. Between that point and 1995, it fell by almost 30%, while producers were exposed for the first time to worldwide competition. Employment rates were supposed to rise thereafter, as vehicle producers became leaner and took advantage of export subsidies. They have not. During the best times of the last 10 years, employment growth has been little better than flat.<sup>266</sup>

This mirrors worldwide industry trends, and has not come as a surprise to NUMSA and COSATU. Nonetheless, it has likely been aggravated by the ANC,

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<sup>262</sup> National Association of Automobile Manufacturers of South Africa

<sup>263</sup> National Association of Automobile Manufacturers of South Africa

<sup>264</sup> Damoense, Maylene, and Alan Simon. “An Analysis of the Impact of the First Phase of the Motor Vehicle Industry Development Programme: 1995-2000” *Development Southern Africa* 21:2 Published by the Development Bank of Southern Africa. (June 2004)

<sup>265</sup> Ibid. Maylene and Simon.

<sup>266</sup> Ibid. Maylene and Simon.

which has valued export growth in fully built vehicles over employment. The largest subsidies received by vehicle producers are Import-Export Complementation credits, with which firms offset the duties owed on imports of components or fully built vehicles by exporting the equivalent value. The government, however, has been gradually scaling back this incentive since the mid-1990's. In 2003, the Productive Asset Allowance (PAA) began to replace the Import-Export Complementation credits as the primary export subsidy. The PAA currently grants import duty credits equal to 20% of the value of 'productive' fixed investment made in a given year. This is a capital equipment subsidy. In the absence of an off-setting employment subsidy, it engenders bias toward the substitution of capital for labor. Given that South Africa imports most of the equipment used for vehicle production, this subsidy negatively affects employment rates, exacerbating the savage unemployment crisis.

According to the calculations of Frank Flatters, a professor at Queens College (Canada), the MIDP cost R11 billion (\$1.05 billion) in 2002 (and subsidy rates have not changed dramatically since then), or R138,000 (\$13,000) per worker. Given that some of these jobs would exist even in the absence of subsidies, the cost per marginal worker is much higher.<sup>267</sup> In the same year, an IMF study estimated that a direct employment subsidy costing the government less than R650 million would create 113,000 jobs, more than the total employment in the motor vehicle industry and enough to reduce unemployment by 5%.<sup>268</sup> While the report suggested such a policy, it was evidently ignored; the ANC does not always march to the IFI tune.

The cost of the MIDP and the potential for pro-employment use of the resources dedicated to automotive industry subsidies demonstrate the intensity of the ANC's commitment to the image of South African business. Countries as diverse as Malaysia, Brazil, and Australia have spent billions upon billions of dollars to

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<sup>267</sup> Flatters, Frank "From Import Substitution to Export Promotion: Driving the South African Motor Vehicle Industry" Paper Presented at the Forum on Trade and Industrial Policy Strategies. Muldersdrift, South Africa: September 9, 2002.

<sup>268</sup> Lewis, Jeffrey. "Reform and Opportunity: The Changing Roles and Patterns of Trade in South Africa and SADC". (Washington DC: *World Bank Africa Region Working Papers No. 14* March, 2001)

subsidize their motor vehicle sectors, in order that they might be players in an industry in which the rewards are often seen more in terms of national pride than of profit. So far, the only clear overall beneficiaries of the MIDP are the multinationals that gain from its incentive program.<sup>269</sup> COSATU has called for an investigation into the MIDP's effect upon employment before the government commits to new spending on 'targeted' industrial policies.<sup>270</sup> It is certainly in labor's interest to do so. But it may be too late. The increasingly assertive ANC elite has lined up behind industrial projects like the construction of the Coega port facility on the Eastern Cape, which thus far primarily serves the needs of a German submarine company, in an exceptionally capital-heavy sector. Dreams of (third-world) South Africa donning a first-world veneer have again taken precedence over the concerns of labor.

#### **D. Unflagging Faith?**

ANC support for costly industrial policy and labor law reform exemplify one of the recurring themes of this paper. What western policy makers deride as 'picking winners' may have aided some East Asian countries in their developmental rise in the late 20<sup>th</sup> century. While I cannot examine the merits of Asian industrial policy, East Asia can be usefully contrasted with South Africa. Japan, and later Korea and Taiwan pursued sectoral policies designed to help them 'climb the product ladder'. Meanwhile, South Africa has attempted to make a Herculean leap to the top, skipping most of the rungs. The peculiar aspirations of a new South African elite partially explain this.

The ANC has attempted to spark growth through liberalization in many area, including those described in chapters 5-7. But with COSATU an ally and consistent vote delivery mechanism, Pretoria has treaded lightly on the union's home turf: labor

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<sup>269</sup> Furlonger, David. "GM in South Africa: Lovin' the Motor Vehicle Industry Program" *Financial Mail* Johannesburg: October 8, 2005.

<sup>270</sup> Dawes, Nick. "State Set for Dramatic Industrial Intervention" *Mail and Guardian* Johannesburg: September 2, 2005.

legislation. With other options exhausted, the ANC may now see labor law as the last area through which to reroute the economy to the ‘right track’ through neoliberal reform.

Labor market reform may very well benefit the South African economy. That, however, will not be the ANC’s sole concern in its implementation. Precedent indicates that the ANC believes that it is making an investment in the future by bolstering the nation’s reputation abroad (and in its domestic business community). South Africans must hope that, this time, the world notices.

## **Conclusion**

*“Never in its wildest dreams did capital think that things would go so much in its favor in the new South Africa”*

- COSATU Secretary-General Zwelinzima Vavi speaking to the CEPPWAWU Congress, 11 August 2005

At the moment of COSATU's founding, Cyril Ramaphosa exclaimed that “a giant has risen.” Has that creature suffered an historical fall, or will labor again be ascendant in South Africa?

Emerging evidence points to the continuing marginalization of the union movement. The ANC has relented to labor pressure in few areas, and most future proposals appear aimed at temporarily and peripherally assuring labor of its relevance while disregarding it in core areas of policy. The ANC recently unveiled the Accelerated and Shared Growth Initiative (ASGI). Pretoria asserts that this document represents a fundamental reorientation of policy away from macro to micro and industry specific concerns, tacitly admitting that GEAR has channeled attention and resources to the former.

It is known that this program will frame the development of a fully-fledged sector-based industrial strategy. It identifies a number of sectors for targeted initiatives, focusing attention upon tourism and on attracting service jobs from the developed world. According to Deputy President Mlambo-Ngcuka, multinationals have outsourced thus far essentially none of their ‘back-office’ work to South Africa.<sup>271</sup> She asserts, however, that the potential for riding the outsourcing wave is

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<sup>271</sup> Mlambo-Ngcuka, Phumzile. Media Briefing. Pretoria: February 6, 2006.

great. She has appointed Minister of Trade and Industry Mandisi Mpahlwa and the chair of (the private) Standard Bank to lead a committee that will propose a set of incentives to multinationals and their contractors. ANC hopes now rest with a more interventionist approach, a symbiotic relationship between capital and government harnessed to spur growth and employment.

The government frames these policies as a fundamental break from the past. Indeed, they do substantively redefine the role of the government in the economy. More tellingly, they turn way from the more rigorously liberal approach of the past ten years. In recent decades, industrial policy has been anathema to the IFIs, who decry what they consider to be its pernicious consequences on efficiency, employment, and competition. And yet, the IFIs have not forcefully disapproved of industrial policy in South Africa as it exists, nor have they publicly signaled that an expansion would raise their ire. The ‘comprehensive’ analysis of the South African economy published by the IMF in January of 2006 dedicates precious little space to examination of industrial strategy. Pretoria appears to have been granted a *carte blanche*.

Do the new initiatives really constitute a new direction in policy? In a number of critical ways, they do. But in other respects they do not. Many of the past decade’s reforms have targeted investors, particularly foreign investors, with incentives and guarantees of stability. These began with the macro stabilization of the mid-1990’s and the opening of public assets to private interests, and now continue with a proposed program of sectoral development. It is clear that the ANC elite pursued orthodox policy for one or both of two reasons; to signal the attractiveness of South Africa to investors and/or to facilitate their own ascension into the rarified world of western elites.

Without knowing the private thoughts of South African leaders, it is impossible to untangle the two threads of this story. Their interplay is, by their very nature, complex, with each possibly reinforcing the other. Visibility of South African officials in international circles could contribute to the place afforded the country on

the agenda of multinationals and financiers. After all, observers of investment trends detect a great degree of faddishness in investment choices. The oddly pervasive idea that ‘you’re nobody if you’re not in China’ defines this sort of behavior. Even if investors do not act rationally (including by not acting upon the analysis of two institutions that they tend to respect, the World Bank and the IMF), might it not be rational for the ANC to play to their prejudices and broad stroke strategizing? Combining this with the fact that top ANC officials have the opportunity to ingratiate themselves with the west’s movers and shakers leaves Pretoria with a potent formula of incentives to embrace liberalism.

Effectively, the transition from macroeconomic adjustment to microeconomic management betrays that Pretoria’s goals, if not its techniques, have remained static. Demonstrating continuity with post-GEAR policy, current reforms principally target investors, and particularly foreigners. There has been minimal talk of a more inward-looking approach to development. The government and the world continue to be perplexed by the low levels of FDI in South Africa (and even the low domestic investment rate). I cannot here determine the causes of this anemic interest, but a number of plausible options exist. South Africa is being ravaged by HIV/AIDS, and one might expect this to adversely affect both foreign perceptions and make domestic capital tepid. The explanatory power of these effects is disputed, however. A 2003 University of Cape Town study of seven manufacturing firms in the Cape Flats area found that the firms incurred few extra costs due to HIV/AIDS, as their HIV positive workers tended to be unskilled and employed under temporary contracts.<sup>272</sup> That is not to downplay the tragedy of HIV. However, there are other forces at work, which likely include: security concerns due to the high crime rate, dearth of skilled workers, local and provincial corruption, and, certainly, perception of high labor costs.

The reaction of investors to a renewed thrust in the direction of industrial policy cannot be determined. The only thing that is sure is that the aspiration of ANC

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<sup>272</sup> Coetzee, Celeste. “Hiring Patterns, Firm Level Dynamics, and HIV/AIDS: A Case Study of Small Firms on the Cape Flats” *University of Cape Town Centre for Social Science Research Paper #3/52* (December 2003)

leaders to make South Africa a world-class export power has not waned, even in the face of numerous failures. The government has almost entirely freed capital from restriction since 1995, has curtailed budget deficits and forced the provinces to put their books in order, has privatized pieces of infrastructure and public enterprises, and has done these things with gusto. It has yet to pay off to the degree necessary if South Africans hope to escape crushing poverty and chronic underdevelopment through liberalization.

Labor's discomfiting experience within the Tripartite Alliance proves that some combination of the forces of Pretoria's interest in attracting investment and personal desire for recognition have been at work since liberation. Labor's defense of its last prerogatives appears tenuous, and the rhetoric employed in the exposition of the Accelerated and Shared Growth Initiative presages serious labor market reform. Terms like 'labor market inclusion' are becoming ever more prominent in official discourse. COSATU is not oblivious to the fact that the ASGI makes to pull the rug out from under its feet. The new initiative indulges many of labor's less prescriptive but still central demands, including those for closer demand management and greater support for labor-intensive industries. Yet COSATU still fears that the policies of the future "will fall far short despite [their] laudable aims."<sup>273</sup> Why? Unions worry firstly that liberal inertia will carry policy away from stated goals. And more importantly, the prospect of labor market reform remains on the table. Recently, the ANC proposed discontinuing the operation of labor courts parallel to the standard courts. This would be a devastating blow.

What is the future of South African labor in a world of increasing commercial and ideological globalization? The South African state retains a larger degree of sovereignty over its economic policy than its rhetoric would have us believe. The question is: will it exercise that sovereignty? Is talk of industrial policy the harbinger of winds of change? Or will South Africa continue to outsource major decisions to

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<sup>273</sup> Nkosi, Joseph. Address to the SACTWU Conference. Cape Town: March 3, 2006

Washington and to New York, to London and to Frankfurt, and to the most orthodox halls of western academia?

The current crop of ANC leaders, with Mbeki and Manuel as their vanguard, appear loath to assert that independence. The Tripartite Alliance has been shaken, time and again, by the ANC's disregard for labor, and yet has survived. Even if it does not, there is little reason to believe that ANC will be challenged; the labor movement lacks the strength and the natural allies required to fundamentally realign the political landscape. Inequality in power has defined the alliance since liberation, and will continue to do so for the foreseeable future.

But events may unfold in very different way. Pretoria looks abroad for approbation. Domestic forces, or turnover atop the ANC hierarchy (Zuma is still a wildcard) may shift its gaze inward. And even if they do not, the western consensus is not fixed and inexorable. That it must be qualified as western, and not universal, has great implications. If China makes to join the developed world, how will the elites and intellectuals of Europe and America reconcile their developmental philosophy to a country whose practices contradict many of its tenets? The Washington twins managed, for a long time, to downplay the role of state intervention in the development of Korea and Taiwan; would they be able to do the same in the case of the Middle Kingdom? There is a good bit of soul-searching going on today at the Bretton Woods institutions. Internal discord has reached a level unknown since the great liberal counter-revolution of the 1970's and early 1980's. Change in South Africa could be home grown or imported.

Relations among South Africa's largest labor federation, its estranged partner in Pretoria, and the puissant Washington institutions speak to the confusion, struggle, and compromise that occur at the nexus of economic and power relations in the modern nation state. The case of South Africa aptly demonstrates the richness and complexity of these interactions. The nation must strive to throw off the weight of a unique and perverse history while awakening to the precariousness of life in the

international economy. For the sake of its long suffering citizens, one must hope that it succeeds.

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