

THE DEVELOPMENTAL STATE IN SOUTH AFRICA: THE DIFFICULT ROAD AHEAD

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1. INTRODUCTION: THE NEW POWER CONSTELLATION AND GROWING INEQUALITY

What the ANC-led government has accomplished over the past 14 years is quite remarkable – especially from a narrow economic growth perspective. The South African economy was in a particularly bad shape in when the ANC became the dominant party in 1994. The economy experienced two decades of stagflation, sanctions and disinvestments. The public debt increased from R37 billion in 1985 to R230 billion in 1994. After decades of exploitation and repression, and after two decades of creeping poverty and rising unemployment, the poorer half of the population (almost exclusively black) was living in abject poverty and destitution. It was indeed going to be an enormous task to get the South African economy going again, to restore its international standing and to reconcile the distributional conflicts that were unleashed by the transformation from the apartheid regime towards a democratic dispensation.

The South African economy was not only in a state of depression, but – as correctly identified by the Reconstruction and Development Programme (RDP) – it was in a “deep-seated structural crisis” after decades of segregation and apartheid. It was therefore – according to the RDP – necessary to bring about a “fundamental restructuring” of the economy to eliminate its conspicuous pro-white and pro-rich orientation and to restructure it in such a way that its orientation could become pro-black and pro-poor. The argument in the RDP was that, if the economy inherited from the apartheid period were to remain “fundamentally unstructured”, the ugly socio-economic remnants of apartheid would not be addressed, but would be perpetuated and even augmented (RDP, ANC, 1994: paragraph 4.1.1).

There are two versions of “restructuring” that can be identified. Firstly, there was the restructuring brought about by the government’s Black Economic Empowerment policy (BEE). This policy was instrumental in creating a black elite and a black middle class. It is, however, very much a top-down policy that co-opted privileged and well-connected blacks into the economic circles of the white elite and white middle class. The BEE strategy has changed the orientation of the economy from being pro-white to becoming somewhat more colour blind, but it definitely did not change its pro-rich orientation into a pro-poor orientation. More resources and opportunities were - in all probability - transferred from whites to the top 20% of the black population over the past 14 years through BEE and affirmative action than were transferred to the poor half of the population through social spending and poverty alleviation – especially if we take into account the corruption into which many BEE programmes degenerated. BEE undoubtedly made a huge contribution to increase inequality and to augment poverty. (See previous editions of *The State of the Nation*, especially chapters by Roger Southall).

A second restructuring that took place since 1994 has been that the trend towards modernisation and “capitalist enclivity” that started in the 1970s was strongly stimulated by the government’s policy of neo-liberalism, market fundamentalism and globalisation.

On the one hand, this trend shifted the dividing line between the rich and the poor to include about 6 million blacks in the ranks of the middle class. On the other hand, this trend has not only deepened the chasm between the poor and the rich, but also strengthened the pro-rich and pro-global orientation of the modern sector of the economy. This version of restructuring was – from the perspective of the impoverished half of the population – very much the wrong kind of restructuring. It intensified the systemic exclusion of the poor and brought about a much more unequal distribution of income.

For all practical purposes 45% to 50% of the population are presently living in poverty, while the other half are living in a comfortable position or are rich and even very rich, something that has led President Mbeki to conclude that South Africa has two economies: the first economy and second economy. It is important, however, to emphasise that South Africa does not have two economies, but a single integrated economy. It is only the inhabitants who are living "as if" in two worlds – the poor in a highly underdeveloped and stagnant environment and the rich in a highly developed and prosperous environment. The so-called Second Economy is nothing but the ugly remnant of the "underdevelopment" that was created on the periphery of the capitalist core during the 20th century, when the core prospered by exploiting the people and the resources on the periphery. The "development of underdevelopment" that occurred on the colonial periphery of many empires in the 19th and 20th centuries, also occurred in South Africa. (See Howe, 2002: 87; Munck, 2005: and Bush, 2006: Ch2).

According to the *South African Human Development Report* of the United Nations (SAHDP, 2003) (Table 2.20), the percentage of the population that is living below the poverty line decreased from 51,1% in 1995 to 48,5% in 2002. However, given that the population grew during the same period, the total number of poor increased from 20,2 million in 1995 to 21,9 million in 2002. According to the same report, poverty became deeper (i.e. more severe). The GINI coefficient for South Africa increased from 0,665 in 1994 to 0,685 in 2006, suggesting that income *inequality* is becoming worse. (*Development Indicators*, 2007: 22). We are confronted with the alarming situation that the poorest 20% (±10 million people) received only 1,7% of total income in 2006, while the richest 20% (±10 million people) received 72,5%! (Ibid.: 21).ⁱⁱ

Viewed against this background, the new ANC dominated government has, as some analysts have suggested, hardly made an attempt to bring about a *fundamental restructuring* of the apartheid-colonial accumulation path as demanded by the RDP. Jeremy Cronin, the deputy secretary of the South African Communist Party (SACP) has correctly alleged that "for big business, moving beyond apartheid has not meant the abolition of the apartheid-colonial accumulation path, but rather its perpetuation in the [new] political conditions" (*Mail and Guardian*, 1-7 Jun, 2007).

This chapter considers the above issues. It will do so against the backdrop of recent announcements by the ANC and its alliance partners, the SACP and COSATU that South Africa is becoming a developmental state, while at the same time saying little about fundamental policy changes. I will show in this chapter that the South African version of free-market capitalism has not only become much stronger, but also more fully integrated into the *America-controlled system of neo-liberal global capitalism*. The only deviations from a free market approach are the BEE and the affirmative action (AA) policies, but they are neither comprehensive enough to address the problems of poverty and inequality,

nor designed to restructure the economy fundamentally. In sections 4 and 5 below, I will demonstrate just how difficult it will be to restructure the South African system into a truly developmental state. The chapter will focus on three major shifts that have taken place in the ANC's general economic approach over the past 14 years: first, the shift from promising a people-centred society towards complacency, denialism and boundless optimism; second, the shift from a vibrant civil society during the struggle period towards the restructuring of a (new) state-society relationship and towards democratic centralism, and most importantly, the shift away from a fundamental restructuring of the South African economy (as was envisaged in the RDP) to address the "deep-seated structural crisis" towards a strengthening of neo-liberal capitalism which makes it extremely difficult to institutionalise the envisaged developmental state.

2. FROM PROMISING A PEOPLE-CENTRED SOCIETY TOWARDS DENIALISM AND BOUNDLESS OPTIMISM

On 24 May 1994, during his *State of the Nation address* in parliament, the then president Nelson Mandela declared that the restoration of the poor and the destitute would be the centre-piece of the new government's social policy. He said, *inter alia*, that "his government's commitment to create a people-centred society of liberty binds us to the pursuit of the goals of freedom from want, freedom from hunger, freedom from deprivation, freedom from ignorance, freedom from suppression and freedom from fear" . (Mandela, 1994: 5). These words of Mandela were not only beautiful and encouraging, but also inspired us with optimism about the future of the new South Africa.

On 6 February 2004 President Mbeki committed his government in his *State of the Nation address* – before the 2004 Election – unconditionally to the same "vision of creating a people-centred society" as announced by President Mandela 10 years earlier (Mbeki, 2004: 3). He did it, however, in completely different circumstances. It was then already clear that very little headway had been made in the previous 10 years towards creating a people-centred society.

For the poorer half of the population these lofty commitments (of 1994 and 2004) have proved (in 2008) to be nothing but vain and empty promises. After 14 years South Africa is anything *but* a people-centred society, the frontiers of human fulfilment and freedom have *not* been expanded for the poor, and the government institutions that were created do *not* serve the impoverished. But in spite of this, President Mbeki claimed in that same address of 2004 that "we already have the policies and programmes that will enable us to translate all the strategic objectives ... into a material factor in achieving the goals of the expansion of the frontiers of human fulfilment, and the continuous extension of the frontiers of the freedom, of which Nelson Mandela spoke a decade ago". (Mbeki, 2004: 9).

The argument that it is unrealistic to expect that the government should solve the social problem – that was bequeathed to the ANC government in 1994 after 100 years of segregation and apartheid – in 14 years has some merit. But the poorer half of the population are living in deteriorating socio-economic conditions because the poverty alleviation measures are not forceful and comprehensive enough to stop the relentless

pauperisation process in its track. The deterioration in the socio-economic position of the poorest half of the population is, however, not only the consequence of wrong *policy* choices – i.e. to give a too high priority to BEE and AA - but mainly the result of wrong *systemic* choices – i.e. the choice of the ANC to perpetuate neo-liberal capitalism, the choice to endow the corporate sector with more leeway and manoeuvring space and the choice to intergrate South Africa into the structures of global capitalism with undue haste.

When we compare the socio-economic realities in South Africa 14 years after the ANC took power with Mbeki's hyperbolic promises of 2004, together with his complacent attitude - that all the institutions and policies necessary to attain these promises are already in place - then we (as concerned observers) have every reason to feel despondent.

It is illuminating to compare the content of the ANC *National Democratic Revolution (NDR)* with the ANC policy approach over the past 14 years. In the *ANC Strategy and Tactics* document (1997) the strategic object of the NDR is described as follows:

The strategic object of the NDR is the creation of a united, non-racial, non-sexist and democratic society ... April 1994 constitutes a platform from which to launch this programme of social transformation. What this revolution still has to accomplish, is to overcome the legacy of a social system that was based on the oppression of the black majority. Political freedom constitutes an important part of this mandate. However, without social justice, such freedom will remain hollow, the pastime of these who can make ends meet. (*ANC Strategy and Tactics*, 1997: 10).

Since April 1994 the ANC has had at its disposal a political platform to launch its programme of social transformation to address the legacy of apartheid and to restore social justice. But the truth of the matter is that, although political and administrative transformation have been brought about, the ANC has not used its state power over the past 14 years to bring about the necessary economic restructuring and the necessary social transformation to restore social justice.

The ANC is not prepared to acknowledge the deteriorating socio-economic position of the poorer half of the population. This kind of denialism is unexcusable.ⁱⁱⁱ The ANC does, however, often concede that poverty, unemployment and inequality remain very serious socio-economic problems and emphasises its determination to find solutions for these problems (see *Draft Commission Reports*, ANC, June 2007). At the same time the ANC remains naïvely optimistic that it can solve these problems in the foreseeable future. It promised regularly that it would reduce the levels of poverty and unemployment by half in 2014 – something that is highly unlikely. If the ANC policy approach and the economic system remain more or less unchanged for, say, the next 20 years, the levels of poverty and unemployment in 2028 will (in percentage terms) in all probability still not be half of what they are in 2008.

In spite of the apparent insolvability of the problems of poverty, unemployment and inequality, the ANC remains quite convinced that the macroeconomic and other economic and social policies are the correct ones and that no new policy initiatives are necessary. In the final paragraphs of his *State of the Nation* address in Parliament on 11 February 2005 President Thabo Mbeki expressed almost boundless optimism about the

government's policy programmes and about the future of South Africa. According to him:

Our country, as a united nation, has never in its entire history enjoyed such a confluence of encouraging possibilities. On behalf of our government, we commend our programme to the country, confident that its implementation will help to place us on the high road towards ensuring that we become a winning nation and that we play our role towards the renewal of Africa and the creation of a better world. Acting together, we do have the capacity to realise these objectives. And sparing neither effort nor strength, we can and shall build a South Africa that truly belongs to all who live in it, united in our diversity! (Mbeki, 11 Feb 2005).

This kind of boundless optimism is not justifiable. It can be regarded as a pretext for the postponement and even the abandonment of the social question.

3. FROM A VIBRANT CIVIL SOCIETY TOWARDS A STRICTLY STRUCTURED STATE-SOCIETY RELATIONSHIP

Historians will regard the 1990s as an important formative period in our country's history. During this decade the ANC leadership was pressurised from two opposite sides. On the one side, local and foreign business pressurised it to liberalise the economy, and to re-engage it as quickly as possible into global capitalism. On the other side, the broad-based social movement pressurised it to implement an agenda for economic democratisation, socio-economic development and poverty alleviation. Given the balance of forces in South Africa and in the world – after the implosion of the Soviet Union and the consolidation of the power of the American-controlled system of global capitalism – the leadership core of the ANC concluded an *elite compromise* or a social contract with local and foreign business in the early 1990s. This contract determined the rules according to which the economic game was going to be played in the new South Africa. According to these rules, corporatism – both locally and globally – was put in a dominant position and the new government in a subservient position. (See Terreblanche, 2002: 96-108, Gumede, 2005 and Johnson, 2004: 226).

When South Africa became fully integrated into the power and ideological structures of the American-controlled system of neo-liberal global capitalism (i.e. when South Africa became the newest outpost of the American empire), it happened at a time when the Americans were in an exuberant mood of triumphalism about the alleged virtues (and the inevitability) of neo-liberal capitalism, globalism and market fundamentalism. (See Cox, 2006 in Colás and Saul). The most remarkable characteristic of the transitional period was that the leadership core of the ANC was prepared to swallow unceremoniously the power of global (mainly American) corporatism and the ideologies of neo-liberalism and market fundamentalism.^{iv} (See Terreblanche, 2002: Ch4).

As soon as corporate dominance and American-controlled globalism were institutionalised in the politico-economic system of the new South Africa, the

manoeuvring space of the new government was closed to such an extent that it could not maintain its decades-long social contract with the social movements. (See Colás and Saul, 2006: Introduction and Ch1 and Gallagher (ed.) 2005). It therefore became imperative for the new government to establish new rules to regulate state-society relations. The institutionalisation of these rules happened in different stages. In the first stage – mainly during the first half of the 1990s – civil society was demobilised and deprived of the highly politicised role it had played during the struggle period. In the second stage – mainly during the second half of the 1990s – large parts of civil society (mainly the larger NGOs) were co-opted as social partners in the delivery of services and the consolidation of state power (see Johnson, 2002: 226-229).

Several events during the first half of the 1990s made it easier for the leadership core of the ANC to demobilise civil society. We can identify at least three other factors that had a paralysing effect on civil society. Firstly, the foreign donor funds were either suspended or redirected by the ANC. This created a survival crisis for many NGOs that made it easy for the new government to co-opt these organisations into its own organisational structures. Secondly, a significant number of senior leaders of civil society during the struggle period migrated upwards to occupy senior political, bureaucratic or private sector positions (see Kotzé, 2004: 12-14). Thirdly, after the defeat of apartheid many civil society organisations slumped into an existential crisis, doubting their own purpose and direction. The struggle against the apartheid regime was clear and it coordinated a plethora of CBOs to form a well-disciplined army – literally and figuratively. After 1994 the new enemy adopted many faces: poverty, unemployment, landlessness, crime, violence, Aids, etc., etc. To mobilise the people against an enemy with so many faces proved to be an almost impossible task (see Barchiesi, 2004: 16-19).

As the government remains a captive of corporate dominance and globalism – and as the larger NGOs are increasingly involved in service delivery - there are signs of a civil society revival in the ranks of smaller community-based organisations (CBO). These organisations are responding to the basic needs grievances of the poor in a situation of worsening poverty. It would be a serious mistake by the ANC if it were to underestimate the hostility that lurks in the ranks of the large number of new community-based organisations (see Kotzé, 2004: 16-24; Greenstein, 2004).

The restructuring of state-society relations by the ANC not only redefined the rules regulating state-society relations, but also has decisive implications for participatory democracy and people-driven development. The rhetoric of the ANC – before and after 1994 – is very explicit about its commitment to participatory democracy and a people-driven democracy. In an ANC discussion document – inspired by Thabo Mbeki – *The State and Social Transformation* (SST) (1996), popular participation in governance is promised in the following terms:

The empowerment of the people to participate in the process of governance, expressed in the concept of a people-centred society and people-driven processes of transformation, indicates the centrality of the concept of popular and participatory democracy to the democratic movement's understanding of the function of a democratic state. It shows the commitment of this movement to the proclamation in the Freedom Charter that 'The People Shall Govern!' It is the

process of the people becoming their own governors (SST, 1996: paragraph 4.11.1.1).

It suits the ANC to create the impression (or illusion) among the members of its support base that political and decision-making power is vested in their hands and also to believe that these members are prepared – at least until now – to swallow the propaganda about their alleged power and influence. Democracy, however, is not only about elections every five years. It is to an important degree also about a vibrant and independent civil society that is organised in such a manner that it can hold the government accountable in an orderly way for its decision making and its policy initiatives.

It is widely accepted that under President Mbeki in particular, the governance style of the ANC has indeed become much more centralised, technocratic and intolerant. Decision-making is increasingly concentrated in the hands of the President and in the bureaucratic office of the presidency. The President has extraordinary power in the appointment of people to strategic positions. Members of parliament are elected on a proportional basis. This practice places huge party political power in the hands of the National Executive Council (NEC). The claim of the “people becoming their own masters” is indeed far-fetched.

4. CONDITIONS FOR INSTITUTIONALISING A DEVELOPMENTAL STATE

As indicated in the introduction, the ANC-led government has not been unmindful of the prevalence of poverty in South Africa. President Mbeki declared in the *State of the Nation address* in Parliament (21 May 2004) that the government’s struggle against poverty and underdevelopment rests on three pillars:

- (i) Encouraging the growth and development of the First Economy, increasing its possibility to create jobs;
- (ii) Implementing our programme to address the challenges of the Second Economy; and
- (iii) Building a social security net to meet the objectives of poverty alleviation. (Mbeki, 21 May 2004: 4).

The government has attained reasonable, albeit rather skewed, results with two of its three policy pillars. Its intervention in the so-called First Economy played a constructive role in creating macro-economic conditions conducive to attaining an annual growth rate of almost 4% over the past 14 years. However, the government’s assumption that a high growth rate in the so-called First Economy (or in the capitalist enclave) will have a sufficient trickle-down effect has proved to be unjustified. It is rather naïve to think that the perpetuation of the apartheid-colonial accumulation path will be to the advantage of the impoverished half of the population.

The government’s policy initiative to build a social security net to meet the objectives of poverty alleviation has been less successful. Between 2003 and 2007 social assistance support grants increased from R37 billion to R62 billion or from 2,9% of GDP to 3,2% (*Development Indicators*, 2007: 25). This is in itself no mean accomplishment.

Unfortunately, the social grants system does not constitute an effective poverty net. Millions of people with very little (if any) income – who ought to receive social grants – do not receive such grants. This is, *inter alia*, the case with the ± 10 million able-bodied men and women between 14 and 60/65 years of age who are unemployed, inadequately employed or unemployable.

The real problem with the ANC “three-pillar” policy approach is that its initiatives to address the daunting challenges of the so-called Second Economy have failed dismally, with the result that the social question has become much more severe. In its Development Report 2005 the Development Bank of Southern Africa (DBSA) comes to the conclusion that although the “government has taken concrete steps to launch a number of [developmental] interventions [in the Second Economy] ... a sober examination of government’s efforts leads to the conclusion that, despite some successes and useful experiences, it has merely dabbled thus far, especially if the increased number of the poor is considered”.^v

The conclusion of the DBSA’s Development Report 2005, is valuable, but it clearly does not penetrate to the real reasons why the government intervention in the so-called Second Economy has been unsuccessful. The real reason is locked up in the government’s structural inability to institutionalise a developmental state in the economy at large. I argue that to overcome the two-economy divide with a developmental approach – as was again envisaged at the policy conference of the ANC in June 2007 – the government will have to surmount at least four stumbling blocks, which are – given the ANC’s present economic policy and the nature of the post-apartheid power constellation – clearly insurmountable.

The first stumbling block is the lack of capacity in the public sector. An efficient and well-disciplined public sector is a *sine qua non* for a developmental approach. We need public servants dedicated to their public task and with the ability to think strategically. Unfortunately, the public sector in South Africa cannot live up to the developmental challenge. Several factors can be blamed for this sorry state of affairs. When the corporate sector convinced the ANC in the early 1990s to accept neo-liberal capitalism and market fundamentalism, the slogan of the day was that the private sector will deliver and that the bureaucratic state is anyway being rolled back worldwide. To make matters worse, the public sector was “Africanised” too quickly over the past 14 years as part and parcel of the government’s affirmative action and black economic empowerment policies. Because of a lack of adequate education and experience in black circles – as part of the ugly legacy of apartheid – the public sector is presently not only highly inefficient, but also ineffective. Instead of displaying a culture of service, the public sector has become renowned for careerism, nepotism and even corruption, while many of its senior officials are guilty of doubtful moral behaviour. Education should have been prioritised to a much larger degree since 1994. (See Sole and Naidoo in *State of the Nation*, 2004-2005: 86-134).

The second stumbling block is the business culture of materialism, individualism and the obsession with the “bottom line” that was cultivated in South Africa during the periods of racial capitalism and globalisation. President Mandela declared – during his first speech in parliament – that the ANC is committed to creating a people-centred society (on 24 May 1994) in South Africa to restore the dignity of each and every individual. It is regrettable that very little of this society and a people-centred morality have been created

in leadership circles in either the public or the private sector over the past 14 years (see section 5 below).^{vi}

The third stumbling block is the huge bargaining power wielded by organised business people living in the modern sector of the economy in comparison with the pathetic powerlessness of the rather unorganised population living in poverty. The huge bargaining power of organised business is based on the elite pact that was negotiated between the leadership core of the ANC and local and global corporatism. Over the past 14 years this elite pact was not only strengthened through strategic concessions to the corporate sector, but it was also assiduously maintained and with it also the policy approach of neo-liberalism, market fundamentalism and globalisation. The terms of this elite pact restrict the sovereignty of the ANC government to act effectively on behalf of the poor, as is also the case with other governments in the global South (see section 5 below).

As indicated in section 3 above, the pathetic powerlessness of the impoverished part of the population, is the result of the new state-society relations structured by the ANC since the early 1990s. As long as the skewed power relations remain intact – i.e. as long as the present rules that regulate state-society and state-economy relations respectively remain institutionalised – it will almost be impossible for the ANC government to shift its policy approach to prioritising the poor instead of the rich.

When President Mbeki talks about the three pillars on which the fight against poverty and underdevelopment rests, he creates the impression that interventions in the so-called First and Second Economy can be *independent* from each other. This is a serious misconception. To think that it is possible to intervene successfully in the so-called Second Economy, while neo-liberal capitalism and globalism remain intact in the First Economy, is unrealistic because South Africa has only *one* interwoven economy. If the ANC government wants to introduce a developmental approach that will be successful in the fight against unemployment and poverty, the two economies would have to be fundamentally restructured. Put differently, the project to introduce a successful developmental approach cannot only be a governmental or public sector project, but it has to be a project of the public and the private sectors *at the same time*. The powerful corporations in the private sector (and especially monopoly capitalism) will have to give their full cooperation in turning around the strong – far too strong – tendency towards capitalist enclivity, towards growing capital intensity, and towards greater engagement of the modern sector in the American-controlled system of neo-liberal global capitalism. To restructure the South African economy into an economy that will serve the population *at large* (i.e. all 48 million people) – and not only the upper half of the population – the government will have to concentrate mainly on “remoulding” the institutional structures and the business culture of the corporate sector in the modern part of the economy.

The *Strategic and Tactics* document that was drafted for the policy conference of the ANC in June 2007 indicate that the ANC – not even to mention the corporate sector – has not the slightest idea how fundamental and how wide-ranging the intervention in the modern sector would have to be “to ensure that private corporations conduct themselves in a socially beneficial manner so that the benefits of growth are shared by all” (Joel Netshitenzhi, SAPA, 29 June 2007). It seems as if the ANC’s knowledge and understanding of the corporate sector’s power, its ideological mentality and its hostility

towards people-centred state intervention is dangerously restricted. (See also *Draft Commission Reports*, June 2007). The corporate sector's experience during the apartheid-colonial accumulation path in the 20th century has spoiled it to think that the only state intervention that is permissible is the state doing some heavy lifting for the corporate sector to promote its profitability. *En route* towards a developmental state it will be necessary for the government to introduce comprehensive additional measures to redistribute income *and* property and to install new networks of rewards and penalties to induce the private sector to act in socially beneficial manners or in ways that will be to the advantage of the poor.

The government is faced with the enormous challenges to design and to implement a developmental state model that will on the one hand not be an emulation of the Asian development strategy (because it thrived on inequality) and on the other hand also not an emulation of the (too expensive) Scandinavian economic model. To be effective in the South African circumstances the chosen model will have to be "cleaned" from many of the characteristics of the prevailing Anglo-American economic model. Whether the corporate sector will give their cooperation in this endeavour, is highly unlikely. It is, unfortunately, by far too powerful, too spoiled and too selfish to support the ANC in the search for an appropriate developmental model.

The fourth – and perhaps the most stubbornly insurmountable – stumbling block *en route* towards a developmental state, is South Africa's extensive involvement in the American-controlled system of neo-liberal global capitalism (i.e. the American empire) and the consequential stranglehold of global institutions on the policy-making process of the government. The key global institutions (World Bank, IMF, WTO, the Washington Consensus, international monetary institutions, credit rating agencies, etc.) and the transnational corporations do not promote development in the global South as they claim, but instead seek to incorporate only the propertied classes and the privileged groups in developing countries into the global economy game because it is not advantageous for the Rich North to incorporate also the less productive factors. (See Munck, 2005: Ch2; and Saul, 2006: Ch3 and Scholte, 1997).^{vii}

In the 35 years before the neo-liberal counter-revolution – i.e. the 35 years after the Second World War – the state in all industrial countries was authorised to maintain full employment and to promote greater social justice through the expansion of the welfare state. During the post-war Golden Age the developed countries were also involved in stimulating meaningful development in the developing countries. After the Reagan "turn" of the early 1980s, full employment was replaced with the idea that the productivity of the *employed* workers must be as high as possible to ensure competitiveness in global markets. This led to unemployment rates of more than 10% in European countries and of more than 30% in many developing countries in the global South. The welfare state was retrenched in many countries and the promotion of social justice was replaced by anti-statism, by deregulation of the corporate sector, by the liberation of trade and by the slogan "rolling back the state". The developmental approach of the rich countries in the developing world was replaced by the structural adjustment programmes implemented by the Bretton Woods Institutions. These programmes were responsible for a sharp decline in the GDP per capita of Africa and Latin America vis-à-vis the GDP per capita of the Rich North.^{viii} Although the neo-liberal counter-revolution may have promoted growth in some countries – and enriched the USA vis-à-vis other countries in the Rich North - it

dramatically weakened the bargaining power of labour vis-à-vis capital and caused globally a sharp decline in the share of GDP allocated in wages to labour.^{ix} (See also Held and Koenig-Archibugi, 2003 and 2004 and Arrighi, 2004).

The American empire is like its British predecessor, an exploitative empire. But in sharp contrast with the British Empire, the American Empire (and its partners in the Rich North) exerts its exploitation not through politically controlled colonies. The American empire is a *post-colonial* empire. It acknowledges the independence of all ± 180 countries – with the exception of the few rogue states. From the American point of view the frontiers of almost all countries are “closed”, but the condition on which the independence of these countries is acknowledged, is that they should practise “good governance” and keep their markets “open” for the infiltration of transnational corporations (TNCs) and for financial speculation by the ± 200 large international financial institutions. The US and its allies in the Rich North exert their imperialistic exploitation, therefore, through “*closed frontiers and open markets*”. The rules according to which the global economic game is played in this system are continually rewritten by the US to serve its interests better. According to these rules, a comprehensive system of rewards and penalties has been introduced to regulate the global economy to the advantage of the US, the other countries in the Rich North and the privileged groups in the global South and mostly to the detriment of the majority in the global South. (See Colás & Saull, 2006: Introduction and Chapters 1 and 2 and Evans, 2005).^x

President Mbeki has aptly described the unequal power relations between the Rich North and the Poor South as a system of global apartheid. As long as this system remains in place, it is almost inevitable that the poorer half of the South African population will remain systemically excluded from meaningful development, as is the case with the poorer half of the population in most of the countries in the Poor South and especially in Africa. The propagandists of freemarket or neo-liberal capitalism claim that the advantages of economic growth will in due course be spread to every corner of the globe. According to them, the “collective wisdom” of the global market mechanism ensures that market prices reflect the true value of all goods and that neo-liberal global capitalism will spontaneously promote the global social value (or the global general interest). This is not only a fallacious claim by the freemarketeers, but also a very dangerous one. It is also based on very poor economics. It is simply not true that market prices reflect the true value of goods – not within countries and even less between countries on global markets. According to Amartya Sen, there is not such a thing as *the* market outcome (or the correct market price), because the prices determined by markets are dependent on what the enabling conditions are and on how equal (or unequal) the distribution of property, power and information are. Those with marketable property (both physical and human property) and those with economic power and access to information, are constantly “twisting” market prices in their favour, while those without marketable property (for example, labour without adequate education or skills and without bargaining power) are systemically excluded from the market and are declared valueless in global markets (Sen, 2006: 136-138).^{xi}

A freemarket or a neo-liberal global capitalist system has always been – and will remain – a fundamentally *immoral* phenomenon. On the one hand it enriches and empowers the privileged and the propertied classes - of which a majority are living in the Rich North while a minority are living in the global South. This minority is co-opted on lucrative

terms as collaborators by the American empire. On the other hand neo-liberal global capitalism is impoverishing and disempowering the small underclass in the North and the poor majority in the South that are without bargaining power, without property and without skills. In accordance with the logic of market fundamentalism the poor – both in the North and the South – are systemically *excluded* because these global markets regard them as worthless and not productive enough to be integrated in the global economic game. (See also Saul, 2006: Ch3 and Wade in Held, et.al., 2003: 18-46 and Munck, 2005).^{xii}

The unequal distribution of power, property in income in South Africa is, on the one hand, deeply embedded in the South African century-long history of colonialism of a special type and, on the other hand, systemically linked with the growing inequalities in the distribution of power, property and income between the Rich North and the Poor South over the past 25 years. It is unfortunate – and perhaps even tragic – that the strong trends towards growing inequality in accordance with the logic of neo-liberal global capitalism was – so to speak – superimposed in 1994 on the huge inequalities "produced" by the apartheid-colonial accumulation path.

5. CONCLUSION: THE DIFFICULT ROAD AHEAD

To explain the relative economic powerlessness of the ANC government, within the system of American-controlled neo-liberal global apartheid, it is illuminating to present the (new) power constellation – that was institutionalised as a result of the elite pact of the early 1990s – as a "power block" composed of four elements. It is this power constellation that poses serious challenges to the institutionalisation of a developmental state in South Africa. Each element is represented by an important city.

Johannesburg represents the local corporate sector and the economic power and property concentrated mainly in the hands of the whites.

New York represents the transnational corporations (TNCs) and the American-controlled system of neo-liberal global capitalism, and also the power and property concentrated in the hands of two billion rich and privileged people in the world.

Pretoria represents the political power of the ANC government. This power is concentrated – within the system of proportional representation - in the hands of the National Executive Council and (to an even larger extent) in the hands of the Presidency.

Washington represents the ideologies of neo-liberalism, market fundamentalism and growthmanship (or the trickle-down myth), and also the military and imperial power of the United States (i.e. the American empire).

The South African system of neo-liberal capitalism - and the power constellation (J-NY-P-W) on which it is based - does have its advantages. It created conditions conducive to the annual growth rate of almost 4% that was attained over the past 14 years. It allows those with accumulated economic power and property to accumulate much more economic power and property. This economic system and the power constellation operates, however, very unfriendly towards the poorer half of the population. Consequently the new power constellation and the new economic system are dysfunctional – as was the case with the economic system during the apartheid period - because it does not serve the population at large.

If you were to ask me which one of the four “links” in the South African “power chain” is the weakest, then the answer is rather obvious – it is Pretoria. If you were to ask me which one is the strongest, then it is rather difficult to answer because the other three “links” are – at least from an ideological perspective – so much in cahoots with one another that they often operate as a single or united power block.

Within the South African power constellation the ANC government does not have enough sovereignty, and also not enough power, authority and capacity, to do what it ought to do to address the ugly socio-economic legacy of 100 years of the apartheid-colonial accumulation path. The ANC government is, therefore, a weak government. To compensate for its relative powerlessness, more and more political power is concentrated in the hands of the presidency and the NEC, but this cannot solve the problem of its powerlessness vis-à-vis the Johannesburg-New York-Washington “power chain”. As long as the ANC government remains a “captive” of this “power chain”, it will remain too powerless to address the social questions – inherited from the apartheid regime – in a proper manner.

It would, however, be wrong to allege that the deterioration of South Africa’s social problems over the past 14 years should be blamed exclusively on the global corporatism and on global capitalism. Although the government’s sovereignty is restricted – as is also the case with other developing countries in the global South - the government does have sovereignty and manoeuvring space – albeit restricted sovereignty and restricted manoeuvring space. The government has not used its restricted sovereignty and restricted manoeuvring space – within the global power structure – in a judicious way. Its BEE policy and its affirmative action policies were driven too hard. Consequently the policy approach of the ANC was too elitist. Instead of using its restricted sovereignty on behalf of the poor, the ANC government used it mainly to promote the interests of the emerging black middle-class. An intriguing question is whether the conditionalities of the Washington Consensus would have allowed the ANC government to have used its restricted sovereignty for a pro-poor instead of a pro-rich policy approach. (See Terreblance, 2002: Ch10).

It is important for us to have a clear understanding of the role played by economic power and property in the power constellation of the South African neo-liberal capitalist system. In accordance with the principle of market fundamentalism, those with economic (or

corporate) power and property (both personal and physical property) have become richer over the past 14 years, while those without economic power and property have become poorer. For a century (\pm 1890 to \pm 1990) the whites have enjoyed power and privileges that have enabled them to accumulate more economic power and property (both personal and physical property) in an unjust politico-economic system that enriched the whites (partially) *undeservedly* and impoverished the blacks (partially) *undeservedly*. With the transition the whites were granted the privilege to “carry over” their economic power and property almost intact into the new South Africa. If the whites had been given this privilege to “carry over” their economic power and property into a economic system that operates in an indisputably *pro-poor* manner, then, I suppose, it would have been in order. Then, I suppose, there would have been “method in the madness”. But this is not what happened.

The whites were given the privilege to “carry over” their economic power and property (also the part accumulated *undeservedly*) into a neo-liberal and globally orientated economic system that operates strongly in favour of the rich, i.e. in favour of the old white owners of wealth and in favour of the new black owners of wealth. We can, therefore, regard this decision as a “double madness”! We should not be surprised that \pm 70% of the whites are today much richer than what they were 14 years ago and that the new (largely artificially created) black middle class also benefits quite handsomely from the system that operates strongly in favour of the rich^{xiii}.

The additional economic power and property that was being accumulated since 1994 by the (old) white economic elite and by the (new) black economic elite within the J-NY-P-W power constellation – given its strong pro-rich inclination – creates serious problems. The arrogance and smugness to which many wealthy people – both white and black – are inclined, is to be deplored. These people are apparently of the opinion that their wealth and status are the singular result of their own worthiness and that they (or their parents or grandparents) are not the beneficiaries of politico-economic systems (or power constellations) that operated in their favour and enriched them out of proportion to their own merit. At the same time they display an unsympathetic and indifferent attitude towards the sorry plight of the poor.

We are confronted with the rather cruel reality that the majority of the whites who were already wealthy in 1994 – partially due to the apartheid-colonial accumulation path – are now much more wealthy as a result of the pro-rich economic system that was re-institutionalised in 1994, while the majority of the blacks that were already poor in 1994 – as a consequence of apartheid – are now even poorer as a result of the fact that the new economic system operates to their detriment! The condition according to which the transition from the apartheid power constellation to the new J-NY-P-W power constellation took place was of such a nature that apartheid is – at least from a socio-economic point of view - not dead and that the poverty of apartheid is being perpetuated and augmented by a formidable power constellation that is legitimized world wide by the (doubtful) ideology of market fundamentalism.

To address this contradictory and immoral situation in place in South Africa since 1994, we have no choice but to replace the American-controlled system of neo-liberal global capitalism by an appropriate developmental state system. But the successful introduction of such a developmental state will necessitate a new power constellation and a new

ideological orientation, i.e. a power constellation and a ideological orientation that would really be sensitive to the developmental needs of the poor and would take the NDR strategic objects of social transformation and the restoration of social justice seriously. But if the successful introduction of a developmental state necessitates a new power constellation – i.e. new state-society, new state-economy rules and a new ideological orientation – how will this be attained? The answer to this critical question is fairly obvious: the ANC will have to revise not only its strictly structured state-society relations, but it will also have to renegotiate the terms of the elite pact (i.e. the state-economy rules) to regain its original commitment to state sovereignty, participatory democracy and a people-centred society.

But are these powershifts *überhaupt* possible? Probably not. I have, therefore, reason to fear that the social question will remain unresolved and that the inhabitants of the poor will remain trapped for the foreseeable future in poverty and destitution. This is South Africa's ultimate conundrum!

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ⁱⁱ South Africa's per capita GDP, corrected for purchasing power parity (PPP), was \$11,200 per annum in 2004, making it the 55th wealthiest country in the world. However, the strikingly poor social indicators in South Africa resulted in an HDI ranking of 121 (out of 177 countries) in 2004 (UNDP, 2006: 283-287). South Africa is one of a few countries with such skewed – and increasingly more skewed – relations between per capita income and the HDI ranking. In 2004 the difference of 66 between the GDP per capita ranking (55 out of 177 countries) and its HDI ranking (121 out of 177 countries) was the third largest in the world after Equatorial Guinea (with a difference of 90) and Botswana (with a difference of 73). South Africa's HDI ranking declined from 85 in 1990 to 121 in 2004 (SAHDR, 2003: 44 and UNDP, 2006: 283). This downward trend reflects the serious deterioration of the socio-economic condition of the inhabitants of the so-called Second Economy.

ⁱⁱⁱ When Pres. Mbeki was asked in parliament (on the 18th of May 2006) about the UNDP statistics on South Africa's Human Development ranking, his reply was that "the UNDP statistics are wrong, definitely wrong: (Hansard, 18 May 2006), (see previous note).

^{iv} The implications of the elite compromise were perhaps as far-reaching and as important in determining South Africa's destiny in the 21st century as was the incorporation of South Africa as an outpost of the British empire in the 20 years after gold was discovered (in 1886). Until 1994 South Africa was aptly described as the last outpost of the (then already defunct) British Empire. The power constellation that was institutionalised by Britain early in the 20th century in South Africa was perpetuated by the two white immigrant groups until 1994. We have reasons to be concerned about how long South Africa – as the newest outpost of the American empire – will retain this status in the 21st century (see section 5 below).

^v The Report blames this failure on “the apparent absence of a coherent, scale-appropriate strategy for the Second Economy, [while] a fundamental shortcoming of current efforts is a tendency to design assistance in a way that does not suit the ordinary poor person” (DBSA, 2005: 98-99).

^{vi} But what is really disconcerting is the sharp contrast between the reductionist individualism and the blatant materialism of a large part of the wealthy white and black elite, on the one side, and the need for a people-centred morality on behalf of the people living in poverty, on the other. It will be very difficult to cultivate an attitude of empathy and compassion towards the poor by the rich segment of people among whose ranks a relentless capitalist mentality reigns supreme.

^{vii} The liberation of trade and the emphasis put by the USA on productivity of employed labour (instead of attaining full employment) and on global competitiveness have been very advantageous for the USA. In contrast with Europe, the USA has abolished almost all elements of the social-democratic model (like unemployment insurance and minimum wages) to create a flexible labour market. By importing huge volumes of cheap consumer goods (mainly from China) the USA can maintain relatively low wage levels and perpetuate its relatively strong position in global markets. Scholte describes labour’s loss of bargaining power as follows: “Faced with (the) transworld reach and mobility of capital, labour – for which border controls remain very real indeed – has seen its bargaining position vis-à-vis management substantially weakened in the late twentieth century ... Considerable evidence can be marshalled to link contemporary globalisation to global income inequalities, greater job insecurity, and so on” (Scholte, 1997: 6).

^{viii} The GDP per capita of Africa South of the Sahara (South Africa included) and Latin America, declined as a percentage of the Rich North's GDP per capita from 3,6% and 17,6% respectively in 1980 to 2,0% and 12,3% respectively in 2000 (Arrighi, 2004: 4).

^{ix} Jan Nederveen Pieterse comes to the firm conclusion that “neoliberal policies are largely responsible for rapidly growing inequality in the past [three] decades”. The income gap between the 20% of the world’s people living in the richest countries and the 20% in the poorest countries was 11 to 1 in 1914, 30 to 1 in 1960, 60 to 1 in 1990, 74 to 1 in 1997 and is now approaching 80 to 1 (Nederveen Pieterse, 2004: 63 and 76).

^x According to Evans, the IMF and more or less 200 international financial institutions (IFI) are in a strategic position to compel the South to act in ways that increase these countries vulnerability: “[These] powerful global financial actors are systematically biased in a way that stifles developmental initiatives in the global South ... [They] foster a level of volatility and systemic risk that limits capital flows and increases the vulnerability of the global South to destructive financial risk. The South suffers from both national-level constraints and global fragility” (Evans, 2005: 196-7).

^{xi} Presently 1 billion members of a potential global labour force of 3 billion are unemployed, while 3 billion people are living on less than \$2 a day. The global markets award no “value” to these potential labourers and to these poor consumers. In accordance with the “collective wisdom” of global markets, these labourers and consumers are worthless and they will remain worthless as long as the American-controlled system of neo-liberal global capitalism remains in place.

^{xii} John Sitton is correct when he alleges the following: “For all its bravado contemporary [neo-liberal global] capitalism is at an impasse. It continues to form powerful forces of production yet is apparently incapable of applying these forces so as to satisfy the basic needs of the world's population. There is economic growth, but also mass poverty and environmental destruction”. (Sitton, 2003: 1).

^{xiii} From April 1994 until October 2007 house prices have increased in real terms by an index of 100 to 270 and the JSE All Share Index by 100 to 240. From a narrow economic point of view, whites have never had it as good as over the past 14 years. (ABSA house price index).