

5 *The developmental state in South Africa: The difficult road ahead*

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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 particularly bad shape when the ANC became the dominant party in 1994. The economy had experienced two decades of stagflation, sanctions and disinvestment. 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 segment 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 the transformation from the apartheid regime towards a democratic dispensation unleashed.

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. According to the RDP, it was therefore 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 that the country inherited from the apartheid period was to remain ‘fundamentally unstructured’, the ugly socio-economic remnants of apartheid would not be addressed, but would be perpetuated and even augmented (ANC 1994: Paragraph 4.1.1).

Two versions of restructuring can be identified. The first version is the restructuring brought about by the government's Black Economic Empowerment (BEE) policy. 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 black people 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 white people to the top 20 per cent of the black population over the past 14 years through BEE and affirmative action than were transferred to the poor segment of the population through social spending and poverty alleviation – especially if we take into account the corruption into which many BEE programmes degenerated. As previous years' editions of *State of the Nation* have shown, BEE undoubtedly made a huge contribution to increasing inequality and augmenting poverty.

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 black people in the ranks of the middle class. On the other hand, this trend 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 section 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 per cent of the population is presently living in poverty, while the other half is living comfortably, is rich or even very rich, something that led former President Thabo Mbeki to conclude that South Africa has two economies: the first economy and the second economy. It is important, however, to emphasise that South Africa does not have two economies, but rather 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 an ugly remnant of the underdevelopment that was created on the periphery of the capitalist core during the twentieth 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 nineteenth and twentieth centuries also occurred in South Africa (Bush 2006; Howe 2002; Munck 2005).

According to the *South Africa Human Development Report* of the United Nations, the percentage of the population that is living below the poverty line decreased from 51.1 per cent in 1995 to 48.5 per cent 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 (UNDP 2003: Table 2.20). According to the same report, poverty became 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 (The Presidency 2007: 22). Alarming, the poorest 20 per cent of the population, which is approximately 10 million people, received only 1.7 per cent of total income in 2006, while the richest 20.0 per cent of the population, which is also approximately 10 million people, received 72.5 per cent of total income (The Presidency 2007: 21).¹ 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 & Guardian* 01-07.06.07).

This chapter considers the above issues against the backdrop of recent announcements by the ANC and its alliance partners, the SACP and the Congress of South African Trade Unions, 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 US-controlled system of neo-liberal global capitalism. The only deviations from a free-market approach are the BEE and affirmative action policies, but they are neither comprehensive enough to address the

problems of poverty and inequality, nor designed to restructure the economy fundamentally. In the final two sections of this chapter, 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:

- the shift from promising a people-centred society towards complacency, denialism and boundless optimism;
- 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.

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 centrepiece 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 beautiful and encouraging, and inspired us with optimism about the future of the new South Africa. In his 'State of the Nation' address on 6 February 2004, before the 2004 election, Thabo Mbeki committed his government unconditionally to the same 'vision of creating a people-centred society' as Mandela had announced 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 proved by 2008 to be nothing but empty promises. After 14 years of

democracy, 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, Mbeki claimed in his 2004 'State of the Nation' address 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 the government to solve the social problem bequeathed to the ANC government in 1994 after hundreds of years of segregation and apartheid in just 14 years has some merit. But the poorer half of the population are living in deteriorating socio-economic conditions because existing poverty alleviation measures are not forceful or comprehensive enough to stop the relentless pauperisation process in its tracks. The deterioration in the socio-economic position of the poorest half of the population is, however, not only the consequence of wrong policy choices – that is, giving too high a priority to BEE and affirmative action – but mainly the result of wrong systemic choices – that is, the ANC's choices to perpetuate neo-liberal capitalism, to give the corporate sector more leeway, and to integrate South Africa into the structures of global capitalism with undue haste. When we compare socio-economic realities in South Africa 14 years after the ANC came into 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's National Democratic Revolution (NDR) with the ANC policy approach over the past 14 years. In the ANC's 1997 *Strategy and Tactics* document, the strategic objective 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 those who can make ends meet. (ANC 1997: 10)

Since April 1994, the ANC has had at its disposal a political platform from which 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 has been brought about, the ANC has not used state power over the past 14 years to bring about the necessary economic restructuring and 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 inexcusable.² 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 (ANC 2007). At the same time, the ANC remains naïvely optimistic that it can solve these problems in the foreseeable future. It has regularly promised that it will halve levels of poverty and unemployment by 2014 – something that seems 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 insolubility 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, 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 2005)

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

From vibrant civil society to a strictly structured state–society relationship

Historians regard the 1990s as an important formative period in South Africa's history. During this decade, the ANC leadership was pressurised from two sides. On the one hand, 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 hand, the broad-based social movement pressurised it to implement an agenda favouring 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 global capitalism – the leadership core of the ANC reached a 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 local and global – was put in a dominant position and the new government in a subservient position (Gumede 2005; Johnson 2004; Terreblanche 2002).

South Africa became fully integrated into the power and ideology of global capitalism (that is, South Africa became the newest outpost of the American empire) 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 (Colás & Saull 2006). The most remarkable characteristic of the transition period was that the leadership core of the ANC was prepared to swallow unceremoniously the power of global corporatism and the ideologies of neo-liberalism and market fundamentalism (Terreblanche 2002).³

As soon as corporate dominance and US-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 no longer maintain its decades-long social contract with the social movements (Colás & Saull 2006; Gallagher 2005). It became imperative, therefore, 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 (Johnson 2002).

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 factors that had a paralysing effect on civil society. Firstly, foreign donor funds were either completely suspended or redirected by the ANC. This created a survival crisis for many NGOs that made it relatively easy for the new government to co-opt these organisations into its own organisational structures. Secondly, a significant number of senior civil society leaders during the struggle period migrated upwards to occupy senior political, bureaucratic or private sector positions (Kotzé 2004). 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 co-ordinated a plethora of community-based organisations (CBOs) to form a well-disciplined army – literally and figuratively. After 1994 the new enemy adopted many faces: poverty, unemployment, landlessness, crime, violence, HIV/AIDS, and so on. To effectively mobilise the people against an enemy with so many faces proved to be an almost impossible task (Barchiesi 2004).

As the government remains a captive of corporate dominance and globalism – and as the larger NGOs become increasingly involved in service delivery – signs emerge of a civil society revival in the ranks of smaller CBOs. These organisations are responding to the basic needs grievances of the poor in a situation of worsening poverty. The ANC would make a serious mistake to underestimate the hostility that lurks in the ranks of the large number of new CBOs (Greenstein 2004; Kotzé 2004).

The restructuring of state–society relations by the ANC has not only redefined the rules regulating those relations, but also has decisive implications for participatory democracy and people-driven development. The rhetoric of the ANC, before and after 1994, is explicit about its commitment to participatory, people-driven democracy. In ‘The State and Social Transformation’, an ANC discussion document inspired by Thabo Mbeki, 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. (ANC 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 – or have been until now – to swallow the propaganda about their alleged power and influence. Democracy, however, is not only about voting in elections that are held 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 policy initiatives.

It is widely accepted that under Thabo 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 over 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 Committee (NEC). The claim of the people becoming their own masters is indeed far-fetched.

Conditions for institutionalising a developmental state

As indicated in the introduction to this chapter, the ANC-led government has not been unmindful of the prevalence of poverty in South Africa. In his 'State of the Nation' address in 2004, Mbeki declared that the government's struggle against poverty and underdevelopment rests on three pillars (Mbeki 2004):

- encouraging the growth and development of the first economy, so increasing its ability to create jobs;
- implementing the government's programme to address the challenges of the second economy; and
- building a social security net to meet the objectives of poverty alleviation.

The government has attained reasonable, albeit rather skewed, results with two of its three policy pillars. Its intervention in the first economy played a constructive role in creating macroeconomic conditions conducive to attaining an annual growth rate of almost 4 per cent over the past 14 years. However, the government's assumption that a high growth rate in the 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 per cent of the GDP to 3.2 per cent (The Presidency 2007: 25). This in itself is 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 them. This is the case with approximately 10 million able-bodied men and women between 14 and 65 years of age who are unemployed, inadequately employed or unemployable.

The real problem with the ANC's three-pillar policy approach is that its initiatives to address the daunting challenges of the second economy have failed dismally, with the result that the social question has become much more severe. In its Development Report of 2005, the Development Bank of Southern Africa (DBSA) concludes 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' (DBSA 2005: 98).⁴

The conclusion of the DBSA's Development Report of 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, given the ANC's present economic policy and the nature of the post-apartheid power constellation, are 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 would deliver and that the bureaucratic state was in any event 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 BEE 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 (Naidoo 2005; Sole 2005).

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. In his first speech in Parliament on 24 May 1994, President Mandela declared

that the ANC was committed to creating a people-centred society in South Africa to restore the dignity of each and every individual. It is regrettable that very little of this society or of a people-centred morality has been created in leadership circles in either the public or the private sector over the past 14 years. The final section of this chapter covers this issue in more detail.⁵

The third stumbling block is the huge bargaining power that organised businesspeople living in the modern sector of the economy wield, compared to the extreme powerlessness of the rather disorganised 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 strengthened through strategic concessions to the corporate sector. It was also assiduously maintained and, with it, the policy approach of neo-liberalism, market fundamentalism and globalisation. The terms of this elite pact restrict the ANC government's sovereignty to act effectively on behalf of the poor, as is also the case with other governments in the global South.

As indicated, the 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 – that is, as long as the present rules regulating state–society and state–economy relations remain institutionalised – it will be almost impossible for the ANC government to shift its policy approach to prioritising the poor instead of the rich.

When Thabo Mbeki talked about the three pillars on which the fight against poverty and underdevelopment rests, he created 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 will have to be fundamentally restructured. Put differently, the project to introduce a successful developmental approach cannot only be a governmental or public sector project. 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 co-operation in turning around the strong – far too strong – tendency towards capitalist enclivity, growing capital intensity, and greater engagement of the modern sector in the system of neo-liberal global capitalism. To restructure the South African economy into an economy that will serve the population at large – that is, all 48 million people and not only the wealthier sections 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 *Strategy and Tactics* (ANC 2007) document that was drafted for the policy conference of the ANC in June 2007 indicates that the ANC – not to mention the corporate sector – does not have the slightest idea of how fundamental and wide-ranging an 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’ (Netshitenzhe 2007). It seems that 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 ANC 2007).

The corporate sector’s experience during the apartheid–colonial accumulation path in the twentieth century has spoiled it into thinking that the only real state intervention that is permissible is for the state to do some heavy lifting for the corporate sector to enhance and promote its profitability. On the road towards a developmental state, it will be necessary for the government to introduce comprehensive additional measures to redistribute income as well as property, and to install new networks of rewards and penalties to induce the private sector to act in socially beneficial ways or in ways that will benefit the poor.

The government is faced with the enormous challenges of designing and implementing a developmental state model that will be neither an emulation of the Asian development strategy (because it thrived on inequality), nor an emulation of the (too expensive) Scandinavian economic model. To be effective in South African circumstances, the chosen model will have to be ‘cleaned’ from many of the characteristics of the prevailing Anglo-American economic model. It is highly unlikely that the corporate sector will co-operate in this endeavour. The corporate sector is unfortunately too powerful, too

spoiled and too selfish to support the ANC in any meaningful way in the search for an appropriate developmental model.

The fourth – and perhaps the most stubbornly insurmountable – stumbling block on the path to a developmental state is South Africa's extensive involvement in the American empire and the consequent stranglehold of global institutions on the government's policy-making process. The key global institutions, such as the World Bank, the International Monetary Fund (IMF), the World Trade Organization, the Washington Consensus, international monetary institutions and credit rating agencies, as well as the transnational corporations do not promote development in the global South as they claim to. Instead, they seek to incorporate only the propertied classes and the privileged groups in developing countries into the global economy game. This is because it is not advantageous for the wealthy North to incorporate the less productive factors (Munck 2005; Saul 2006; Scholte 1997).⁶

In the 35 years before the neo-liberal counter-revolution (the 35 years after the Second World War) the state, in all industrialised 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, developed countries were also involved in stimulating meaningful development in 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 per cent in European countries, and of more than 30 per cent 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 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 North.⁷ Although the neo-liberal counter-revolution may have promoted growth in some countries (and enriched the USA compared to other countries in the North), it weakened the bargaining power of labour dramatically and caused a sharp global decline in

the share of GDP allocated in wages to labour (Arrighi 2004; Held & Koenig-Archiburgi 2003).⁸

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 North) does not exploit through politically controlled colonies. The American empire is a post-colonial empire. It acknowledges the independence of all of the approximately 180 countries in it, 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 and for financial speculation by large international financial institutions. Therefore, the US and its allies in the North exert their imperialistic exploitation, 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 wealthy North and the privileged groups in the global South, mostly to the detriment of the majority in the global South (Colás & Saull 2006; Evans 2005).⁹

Mbeki 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, especially in Africa. The propagandists of free-market or neo-liberal capitalism claim that the advantages of economic growth will, in due course, 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 free marketeers, but also a very dangerous one. In addition, it is 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 no such thing as *the* market outcome (or the correct market price), because the prices determined by markets depend on what the enabling conditions are and on how equal (or unequal) the distribution of property, power and information is. 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. Those without marketable property, such as labour without adequate education or skills, and those without bargaining power are systemically excluded from the market. These people are declared valueless in global markets (Sen 2006).¹⁰

A free-market or 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, the majority of which live in the North. A minority live 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. According to 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 into the global economic game (Held & Koenig-Archiburgi 2003; Munck 2005).¹¹

On the one hand, the unequal distribution of power, property and income in South Africa is deeply embedded in South Africa's century-long history of colonialism of a special type. On the other, it is systemically linked to 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 were – so to speak – superimposed in 1994 on the huge inequalities that the apartheid-colonial accumulation path produced.

Conclusion: the difficult road ahead

To explain the relative economic powerlessness of the ANC government within the system of US-controlled neo-liberal global capitalism, it is illuminating

to present the (new) power constellation, which was institutionalised as a result of the elite pact of the early 1990s, as a 'power bloc' 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, with economic power and property concentrated mainly in the hands of white people.
- New York represents the transnational corporations and the system of neo-liberal global capitalism, and also the power and property concentrated in the hands of 2 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 NEC 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 US (that is, 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 per cent 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 operate, however, in an unfriendly way 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 they do 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, 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 bloc.

Within the South African power constellation, the ANC government does not have enough sovereignty, and also not enough power, authority or 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. This cannot solve the problem, however, 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 worsening of South Africa’s social problems over the past 14 years should be blamed exclusively on global corporatism and 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, even though these are restricted. The government has not used its restricted sovereignty and restricted manoeuvring space within the global power structure judiciously. Its BEE and affirmative action policies were driven too hard. Consequently, the ANC’s policy approach 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 use its restricted sovereignty for a pro-poor instead of a pro-rich policy approach (Terreblanche 2002).

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) have become richer over the past 14 years, while those without economic power and property have become poorer. For a century, from approximately 1890 to 1990, white people enjoyed power and privileges that enabled them to accumulate more economic power and property in an unjust politico-economic system that enriched white people (partially) undeservedly and impoverished black people (partially) undeservedly. With the transition, white people were granted the privilege to ‘carry over’ their economic power and property almost intact into the new

South Africa. If white people had been given this privilege to carry over their economic power and property into an 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.

White people 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, that is, 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 approximately 70 per cent of white people are today much better off than 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.¹²

The additional economic power and property 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 white people who were already wealthy in 1994 – partially due to the apartheid-colonial accumulation path – are now much wealthier as a result of the pro-rich economic system that was re-institutionalised in 1994, while the majority of black people who 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 legitimised worldwide by the (doubtful) ideology of market fundamentalism.

To address the contradictory and immoral situation in place in South Africa since 1994, we have no choice but to replace the US-controlled system of neo-liberal global capitalism with an appropriate developmental state system. But the successful introduction of such a developmental state would necessitate a new power constellation and a new ideological orientation that would truly be sensitive to the developmental needs of the poor and that would take seriously the NDR strategic objectives of social transformation and the restoration of social justice. But if the successful introduction of a developmental state necessitates a new power constellation – a new state–society relationship, 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 not only have to revise its strictly structured state–society relations, but it will also have to renegotiate the terms of the elite pact (the state–economy rules) to regain its original commitment to state sovereignty, participatory democracy and a people-centred society.

But are these power shifts at all possible? Probably not. I have, therefore, reason to fear that the social question will remain unresolved and that the poor will remain trapped for the foreseeable future in poverty and destitution. This is South Africa's ultimate conundrum.

Notes

- 1 South Africa's per capita GDP, corrected for purchasing power parity, was US\$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 a Human Development Index (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 (UNDP 2003: 44; UNDP 2006: 283). This downward trend reflects the serious deterioration of the socio-economic condition of the inhabitants of the so-called second economy.

- 2 When President Mbeki was asked in Parliament on 18 May 2006 about the United Nations Development Programme (UNDP) statistics on South Africa's Human Development ranking, his reply was that 'the UNDP statistics are wrong, definitely wrong' (Hansard 18 May 2006).
- 3 The implications of the elite compromise were perhaps as far-reaching and as important in determining South Africa's destiny in the twenty-first 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 already defunct British Empire. The power constellation that was institutionalised by Britain early in the twentieth century in South Africa was perpetuated by the two white immigrant groups until 1994. We have reason to be concerned about how long South Africa – as the newest outpost of the American empire – will retain this status in the twenty-first century.
- 4 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).
- 5 What is really disconcerting, however, 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.
- 6 The liberation of trade and the emphasis put by the US on the productivity of employed labour (instead of on attaining full employment) and on global competitiveness has been very advantageous for the US. In contrast with Europe, the US has abolished almost all elements of the social democratic model (such as unemployment insurance and minimum wages) to create a flexible labour market. By importing huge volumes of cheap consumer goods mainly from China, the US can maintain relatively low wage levels and perpetuate its 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).

- 7 The GDP per capita of Africa south of the Sahara (South Africa included) and Latin America declined as a percentage of the North's GDP per capita from 3.6 per cent and 17.6 per cent respectively in 1980 to 2.0 per cent and 12.3 per cent respectively in 2000 (Arrighi 2004: 4).
- 8 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 per cent of the world's people living in the richest countries and the 20 per cent 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 (Pieterse 2004: 63, 76).
- 9 According to Evans, the IMF and more or less 200 international financial institutions 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: 196–197).
- 10 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 accord 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 US-controlled system of neo-liberal global capitalism remains in place.
- 11 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).
- 12 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, white people have never had it as good as over the past 14 years (Absa house price index).

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