THE RDP WHITE PAPER: RECONSTRUCTION OF A DEVELOPMENT VISION?

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Introduction

In the middle 3-4 months of 1994 interested observers and an expectant electorate were treated to regular accounts of progress in finalising the RDP White Paper (WP). Originally scheduled for release in mid-July, the WP was finally published on September 21 after many last minute differences, both within the Government of National Unity (GNU) and the ANC-alliance, were ostensibly settled. We were treated during this period to rumours of conflicts and tensions between 'pragmatists' and 'socialists' allegedly battling for the 'soul of the ANC'; of policy differences between 'conservatives' and 'interventionists' in the GNU; of deep methodological and ideological differences between the two sets of economic modellers used by the government (the 'supply-side' Development Bank of Southern Africa/Central Economic Advisory Service (DBSA/CEAS) team on the one hand and the 'demand-led' Macro-Economic Research Group/National Institute for Economic Policy (MERG/NIEP) team on the other) etc. After all the build-up, the WP itself turns out to be a major disappointment.

In assessing the WP care needs to be taken not to exaggerate its significance by reading it as directly or instrumentally reflecting the balance of economic and political power within the ANC (or GNU), especially in light of the particular circumstances by which it came to be produced and the 'shifting internal dynamic of the alliance that has made up the democratic movement.' However, policy documents are not 'merely small craft bobbing on the top of the ocean simply because the idea is rejected that they are the hands on the tiller of a liner.' Much depends upon the 'degree of sophistication' with which they are reviewed (Fine, 1994:23).

This critique of the RDP WP may well fail Fine's test. However, it is offered as a modest contribution towards shaping development strategy and thinking at a critical time in the history of South Africa. It is a response to the call for comment and input to the RDP process as part of the democratic approach to making the RDP work. In five, ten or fifty years time, economic historians may remark with some amusement on the passion and intensity with which this debate was engaged since the mid-1980s, and the triviality of the gains or losses suffered in the wider scheme of the history of economic ideas. Until then...

In this paper, we will argue that the RDP WP represents a very significant compromise to the neo- liberal, 'trickle down' economic policy preferences of the old regime, despite regular assurances from key economic ministers in the GNU that only the language of the WP has been changed to accommodate a wider constituency of interests. The politically motivated attempt to keep the left within the democratic movement happy has resulted in a highly incoherent and largely fragmented strategy for economic development that will not satisfy progressives. The WP will be welcomed only by those who believe that policies which involve any form or degree of effective state intervention are antithetical to economic growth. Sadly, it would appear that there are far too many in this latter category inhabiting the corridors of state power in the new South Africa. A recent confidential credit rating study commented:

> ...it is fair to say that the mainstream of the ANC is now centre-left on the European model. Indeed, there is a substantial element which is even more market-oriented, advocating a New Zealand style independent central bank and other reforms. However, the economic liberals have not yet managed to convince President Mandela of the desirability of privatisation. This is not, though, to be ruled out (IBCA, 1994:7).

Some General Observations[2]

We begin with the stated purpose of the RDP WP. The document makes three different references to intent. On the one hand the WP 'explains ... how the Government is beginning to implement the RDP...' (0.3). Later we are informed that the 'RDP must now be translated into an actual programme of the Government. The White Paper begins this task by setting out strategies for implementation of the RDP' (0.5). Finally, in Chapter 8 we are told that '[t]his first White Paper on Reconstruction and Development has set out key change management strategies for transformation, particularly of government at all levels'. Minister Naidoo later added that this WP only 'sets out what government's strategy is for implementation' (*Business Day*, 22 September 1994). These divergences partly explain the document's uneven treatment of various subjects. The absence of a single focus also makes it difficult to evaluate the document. In some areas the WP attempts to define the relevant strategies for transformation, while in others the focus is on implementation. At the same time many branches of government (eg Trade and Industry) appear to have finalised strategies and have already started the process of implementation. Exactly how these current programmes fit in to the overall programme to provide an integrated and co-ordinated strategy to achieve the objectives set out in the Base Document, is unclear.

The WP is at pains to assert that it is about 'fundamental transformation' despite the dozens of references to the more sober new term 'renewal' (appearing five times in the first 14 lines).[3] We are assured that the 'RDP is not an add-on programme' (1.1.2); and despite the list of 'projects' in the Annexure, that it is not 'merely a collection of large or small development projects' (2.4.7). At the same time, we are *told that* 'the government's RDP activities ... should not be seen as a new set of projects, but rather as a comprehensive redesign and reconstruction of existing activities' (Preamble). Are we to infer that the RDP activities should be seen as an old set of projects established by the previous government?

To argue that the RDP Base Document and the WP should be read as complementary suggests a continuity of economic strategy and policy between them which simply does not exist. The dropping of nationalisation, even as a policy option, and the fact that privatisation creeps in in many places, albeit in disguise ('the sale of state assets'), is only the most obvious among these. The changes in principle, detail and emphasis go well beyond this single and obvious example.

The Base Document brilliantly captures the essence of the movement's policy in its six basic principles. The first principle speaks of an 'integrated and sustainable programme'; the fifth principle states, 'the RDP integrates growth, development, reconstruction and redistribution into a unified programme' (BD 1.3.6) [4]; and later the RDP principles are summarised as 'an integrated programme, based on the people, that provides peace and security for all and builds the nation, links reconstruction and development and deepens democracy - these are the six basic principles of the RDP...' (BD 1.3.8).

In sharp contrast the WP extends and modifies some of these principles in not insignificant ways. The first principle has been extended to include the following statement, '[a]ll levels of government must pay attention to affordability given our commitment to fiscal discipline and to achieve the RDP objectives' (1.3.2). The issue of fiscal discipline has therefore become a key element of the first principle of the RDP. The fifth RDP principle is recast as follows: 'The RDP integrates growth, development, reconstruction, redistribution and reconciliation into a unified programme' (1.3.6). Moreover, as part of this principle, the WP states that for reconstruction and development to be successful 'attention will be paid to those economic factors inhibiting growth and investment and placing obstacles in the way of private sector expansion' (1.5.3). Again, something more akin to a constraint or obstacle to development is elevated to the level of principle. The succinct summary of the six RDP principles in the Base Document is left out entirely. Nearly all other references to these linkages and interactions refer only to 'growth, reconstruction and development' (eg see the last sentence in section 1.3.6). No mention is made of 'redistribution'. The word 'redistribution' in fact appears only twice (in this sense) in the entire WP (pp. 4 and 24).

The White Paper is also very short on detail. We are informed that another WP is to be published in March 1995 which (we are promised) will contain more detail. There are simply no numbers here (how many jobs, houses, schools etc), no priorities set out; no targets established; no timeframe or schedules. These glaring omissions appear to characterise other recently released White Papers. In commenting on the Education WP, one commentator remarked that:

> there is no indication of any targetting, of a state-led intervention in areas of financing outside the formal [education] system, no indication of what the timeframe for budgetary reconstruction might be precisely to meet the wider objectives of educational and training needs, no quantification of the possible areas in which financing might be made available either in the short-term or in respect of a longer set of goals, and no clear and unequivocal statement of what incentive and earmarking measures and mechanisms might be used in broadening the base of funding as a whole (Motala, 1994:2).

The economic ideas and policies advanced in the WP simply do not live up to President Mandela's stirring commitment in the Preamble: 'Our people have elected us because they want change. Change is what they will get ... we must put firmly into place the concrete goals, timeframe and strategies to achieve this change' (p.ii).

A Critique of Some Specific Policy Proposals

- **On Fiscal Policy**

The maintenance of a sound fiscal balance (as the MERG Report 1993:47 points out) should not be constraining, but enabling and facilitating. The real question is how that balance is managed. A co-ordinated economic programme can effectively utilise both the revenue and expenditure aspects of fiscal policy to achieve some of its main objectives, namely to create employment, develop the infrastructure, provide basic needs, reduce the concentration of wealth and improve income distribution, and finally help achieve sustainable economic growth. How and to what extent has the WP utilised both the revenue and expenditure aspects of fiscal policy towards these ends?

The major focus of fiscal policy under the RDP WP is on 'fiscal discipline'. Within the context of the recommended policies 'fiscal discipline' translates into narrow 'fiscal conservatism', since the WP commits the government at the national, provincial and local levels to reduce expenditures, finance the RDP primarily from restructuring the budgets, maintain or reduce the level of direct taxes, consolidate business confidence, enhance the environment for private sector expansion, and liberalise the economy.

To elaborate on the role of government, the Base Document states that '[t]o carry out programmes to meet [the RDP] objectives ... the democratic government must play a leading and enabling role in guiding the economy and the market toward reconstruction and development ... There must be a significant role for public sector investment to complement the role of the private sector and community participation in stimulating reconstruction and development' (BD 4.2.3 and 4.2.4). In contrast, the WP reduces the role of the government in the RDP to managing the transformation. It states, '[t]he RDP is a vision for the fundamental transformation in our society. It is the duty of the government *to manage* this transformation. This is being done by the development of key medium and long-term programmes which incorporate the basic aims of the RDP and which allow for effective management' (1.5.2).

The potential contribution of fiscal policy to the realisation of some of the medium and long-term objectives of the RDP has been frustrated in the WP by the straitjacket imposed by the elevation of fiscal discipline to the status of a principle. The document states that '... the overall process for taking forward the RDP ... is geared to cutting government expenditure *wherever possible*' (3.3.3, emphasis added). It should be a major concern that such a commitment might lead to the decline in the ANC's pledge in the Base Document to establish comprehensive health care, welfare and social security programmes as well as programmes to provide basic needs. There are already alarming signs of Government wavering on some of these commitments. For example, the Base Document is very detailed in defining the objectives and strategies necessary for the RDP to transform the existing social welfare system into one which focuses on basic needs and development that ensures the provision of basic welfare rights to all South Africans (BD 2.13.2.3). The Base Document also envisages that the national social security system will be established to 'meet the needs of workers in both formal and informal sectors, and of the unemployed' (BD 2.13.10). In the small section devoted to welfare in the White Paper, the focus is only on improving the efficiency of delivering welfare to those who have entitlement (3.12). The White Paper no longer commits the Government to providing basic welfare rights to all South Africans. Moreover, the issue of a national social security programme has been completely abandoned.

In the area of taxation, the Base Document calls for a review of the tax structure 'to develop a more progressive, fair and transparent structure' (BD 6.5.12). Additionally, it states that the priorities include the elimination of bias in tax against women, the reduction of the burden of income tax on middle income people, rationalising company tax breaks that may conflict with RDP priorities, eliminating the tax bias against small and medium-sized companies, and zero-rating value added tax (VAT) on basic necessities (BD 6.5.13). The Base Document also recommends using taxation policies to provide incentives for institutional affirmative action programmes, and instructs the government to 'draw on specific reconstruction levies. The design of reconstruction levies will depend on the aims of the RDP as a whole, especially in terms of promoting development and growth, but could include levies on capital transfers, land and luxury goods' (BD 6.5.15).

Despite these clearly defined tax strategies and policy recommendations, the WP's only specific tax statements are that the government will not increase the general level of taxes (3.4.4), and that the efficiency of tax collection will improve as the government will demand that '[a]ll tax incentives and exemptions ... be listed and a cost-benefit analysis carried out' (4.3.1). Other general statements in the WP on taxation are either less defined or they dramatically deviate from the Base Document. For example, the WP makes the non-committal statement that the government will *consider* the specific composition of the tax system (3.4.4); and that the tax system will be reviewed 'to ensure that it supports and facilitates the aims of the RDP, in particular equity and efficiency' (4.3.1).

The White Paper should have built on the specific strategies and recommendations of the Base Document on taxation by producing concrete policies with concrete goals within a viable timeframe and which adhere to the stated objectives, strategies and recommendations of the original RDP. At the very least, it should have used the opportunity to provide the Tax Commission with a detailed set of guidelines and objectives.

Caution must be exercised not to exaggerate the fiscal crisis facing this country. Even the credit rating agency IBCA, which would be expected to be conservative on issues of macro-economic balance, warns against overstating the fiscal crisis.[5] Jeffrey Sachs, who has been advisor to many governments in Latin America, the former Soviet Union, and Eastern Europe, recently criticised the IMF for its narrow focus on the budget deficit, arguing that 'the basic fiscal problem is often as much one of public confidence in future policies as it is the size of the budget deficit *per se*' (*Economist*, 1 October 1994:28).

The point to be made, in general, is that while fiscal discipline will always be an important factor in macro-economic thinking, it is essential that it is not simply and narrowly understood as an instrument to maintain, on a year-on-year basis, some magic debt to GDP ratio. In countries undertaking major transformations, greater flexibility about these targets is desirable, and macro-economic balances should be assessed over periods of time (say 5-10 years), so as to allow the positive results of particular policy interventions to work their way into improved growth rates (Padayachee, 1994 forthcoming; Zarenda, 1994).

- **On Monetary and Financial Policy**

Monetary policy constitutes a major component of any comprehensive, internally consistent macro-economic policy framework. To achieve the RDP objectives requires a close policy co-ordination between fiscal, monetary, industrial and international economic policy. It is only in this context that monetary policy may contribute to the achievement of objectives such as investment growth, as well as stability in monetary variables, the balance of payments and the budget.

The WP's use of monetary and financial policy is disappointing and unsatisfactory. It states that the Reserve Bank will continue to be an independent policymaking body, asserting that the Bank's independence is necessary 'to ensure that it is insulated from partisan interference and is accountable to the broader goals of reconstruction and development' (3.9.1). The document, however, does not state what are the *broader* goals of the RDP to which the Reserve Bank is to be made accountable; nor does it explain how the Reserve Bank is to be made *accountable*! Furthermore, it assigns to the monetary authorities the task of *maintaining* the value of the currency, keeping inflation *relatively low*, and ensuring the *safety and soundness* of the financial system (3.9.1). Within the proposed framework the recommendations give the Reserve Bank discretionary power to decide what relatively low inflation is, what the value of the currency should be, and what is meant by 'ensuring the safety and soundness of the financial system'.

Most disturbing is the extent to which the WP's discussion of monetary and financial policy deviates from the Base Document. All the plans to radically restructure the financial sector, including the possibility of creating new financial institutions and new financial instruments, are dropped. Draft legislation to force disclosure of loan details by race and gender, is replaced by a mild promise that government 'will discourage financial institutions from discriminating on the grounds of race and gender' (3.9.2). Omitted are the Base Document's recommendations to create housing banks and community banks, the commitment to 'establish prudent non-discriminatory lending criteria', and to change the Mutual Fund and the Reserve Bank boards to 'include representatives from the trade unions and civil society' (BD 4.7.4 - 4.7.7). The absence of these factors in the formulation of the new monetary and financial policy demonstrates the extent to which the RDP principles for the democratisation of institutions and for a 'people-driven process' have been compromised. The failure to integrate the above-mentioned recommendations into the WP's overall monetary and financial policy leaves the concentration of financial wealth intact, makes access to financial services limited and conditional, and maintains the decision-making process in this important sector of the economy in the hands of a bureaucratic and technocratic elite.

- **On International Economic Policy**

South Africa is under tremendous pressure from the domestic corporate sector, multinational corporations, international financial institutions and foreign states to take policy and legal steps to liberalise its trade and investment regulations and laws and thus incorporate completely into the world economy. How, when and under what terms South Africa is incorporated into the globalisation process has important implications for the success of the RDP. It is, therefore, important to critically analyse the WP's proposed international economic strategies and policies.

The WP states that '[t]rade policy must ensure a greater quantity of manufactured exports from South Africa, a process largely dependent upon the application of an effective industrial policy' (3.7.3). And, the government will continue its 'firm commitment to gradual but steady trade liberalisation in all sectors of the economy, as espoused in the GATT agreement' (3.7.4). Recognising that this policy will lead to disruption and lay-offs in some industries, the WP promises that '[t]he Government will nevertheless make use of socially responsible supply-side measures to assist sensitive industries in adapting, in order to overcome the stronger international competition' (3.7.4). The document continues by promising the adoption of some specific measures, including assistance in capacity building, retraining, enhancement and better utilisation of technology, anti- dumping measures, and programmes to realise the export potential of small and medium-sized enterprises (3.7.4).

Given these commitments, the question arises as to why the government is currently implementing the GATT when 'an effective industrial policy' is not yet in place, and the details and time-scales for implementing the above measures are not clearly spelled out, either in the WP or elsewhere. Moreover, it would have been extremely important for the WP to indicate that the obligations under the GATT provisions involve much more than a commitment to tariff reduction and the elimination of quotas; that these obligations include adherence to the principles of 'most favoured nation' and 'national treatment' and the acceptance of other principal obligations, including those related to government procurement policies, subsidies, intellectual property rights, investment, trade in services, custom procedures, and anti-dumping. The document neither provides any statement regarding the implementation of all these aspects of the GATT nor recognises their implications for the achievement of the RDP objectives.

The implementation of GATT regulations invariably redefines the relationship between the state and civil society, and weakens government intervention at all levels; it imposes an economic programme of privatisation and deregulation in place of policies aimed at achieving full employment; it functions as a mechanism to weaken interventionist domestic laws and regulations; it promotes regressive restructuring; it weakens worker rights and unions, as well as the provision of public services and infrastructure.

With respect to foreign investment, the WP extends the principle of national treatment to foreign investors so that they 'would enjoy the same treatment as domestic investors and would be obligated to abide by South African Laws' (3.5.4). We would argue that the general principle (not stated in either the Base Document or the WP) that foreign investors should not qualify for special treatment pertaining to incentives to invest (tax holidays etc) is correct. However, the extension of the principle of national treatment to foreign investors means that the government will extend to them treatment no less favourable than it accords, in like circumstances, to its own investors with respect to the establishment, acquisition, expansion, management, conduct, operation and sale or other disposition of investments. It is important to emphasise that with regard to these issues, the WP imposes no performance requirements. Possible provisions could have included, for example, the requirements to export at a given level, achieve a given level of domestic content, accord a preference to domestic goods or services, relate the volume or value of imports of a foreign investor to its volume or value of exports, or to restrict sales of goods or services in its own territory.

Although such performance provisions are also absent in the Base Document, that document at least states that '[t]he democratic government must develop policies to ensure that foreign investment creates as much employment, technological capacity and real knowledge transfer as possible, allowing greater participation by workers in decision-making' (BD 4.4.6.4). The WP should have developed each of these points (as well as those referred to above) by recommending specific policies with respect to the operation and performance requirements of foreign investors in South Africa, or at least by indicating that these would soon be addressed elsewhere.

Unfortunately, the WP's failure to provide specific guidelines and a timetable for a more systematic integration into the world economy, has allowed trade policy-makers to begin implementing policies that are clearly not co-ordinated with other government departments. This is in total contrast to the Base Document's statement that '[t]he democratic government *must* work together with organised labour and business in the National Economic Forum to *ensure co-ordination* between macro-economic policies and trade, industrial and technology strategy' (BD 4.4.5.2, emphasis added).

Finally, in section 1.4.15 the WP correctly points out that the 'pressures of the world economy and the operations of the international organisations such as the International Monetary Fund (IMF), the World Bank and GATT, affect our neighbours and South Africa in different ways.' However, the next sentence goes on: 'In the case of our neighbours, they were pressured into implementing programmes with adverse effects on employment and standards of living'. The inescapable implication is that South Africa is somehow immune from similar pressures. Of course the strengths of the economy and our capacity to ward off such pressures may be better, but the belief implicit here that the pressure from the international financial institutions will have no adverse effect on South Africa's economic development is both naive and dangerous, and serves to curtail any serious discussion about a more comprehensive and balanced strategy to deal with these internationally powerful institutions. For example, the World Trade Organisation, to be established under the GATT, is to provide the common institutional framework for the conduct of trade relations among GATT members and is to co-operate with the IMF and World Bank in its Trade Policy Review process as it sees appropriate. This alone is expected significantly to curtail the ability of national governments to control their domestic policy and legislation and thus will have serious implications for the new government in South Africa.

- **On Industrial Policy**

To be an effective instrument for achieving the long term objectives of the RDP, namely, sustainable growth, full employment, international competitiveness and a stable social and political environment, an industrial policy must specify its particular objectives, define the means for achieving them and co-ordinate policy actions with other branches of Government.

The WP's section on industrial policy is sound as far as it goes. There is a commitment to support selective industries (such as light manufacturing) to build their global competitiveness; it promises support for the provision of training, research and development, design, technology acquisition and export-marketing; and it encourages linking of primary industry to manufacturing. Despite these promises, the links between state support and manufacturing development is extremely ambiguous.[6]

The WP's emphasis is to enhance the economic and legal environment for private sector investment and growth. 'The Government is committed to creating an enabling environment that will encourage investment by facilitating efficient markets and by redressing the distortions of the past' (3.5.5). Also paragraph 3.4.2 states that the government has taken a number of steps to consolidate confidence. 'However, a number of other policy areas must be addressed to improve the overall environment for investment and saving.'

The WP's recommendations also aim to make the market more competitive with the intention to reduce the concentration of economic power and to better protect consumers. However, there is no reference to the specific structure of economic power in South Africa and no reference to the need for positive support for the black majority to gain easier access to capital. This is different in the Base Document where the section on the corporate sector specifies that 'a central objective of the RDP is to deracialise business ownership and control completely, through focused policies of black economic empowerment.' These policies must aim to make it easier for black people to gain access to capital for business development (BD 4.4.6.3). Furthermore, the Base Document relates the creation of a more dynamic business environment to, among other things, workplace democratisation and a more open and flexible management style (BD 4.4.6.1).

With respect to the Government's policy on small and medium-sized enterprises (SMEs), again the Base Document is much clearer, both in its requirement for the adoption of an integrated approach to the problems of this sector of the economy, and in providing specific policy recommendations. Although the WP identifies the areas of support to SMEs, it provides no specific criteria or timeframe, nor does it specify the scale of funding for delivering such support. It is also important to note that the WP's heavy emphasis on controlling inflation as a precondition for growth may have very serious consequences for investment and for the development of small and medium enterprises.[7]

- **On Labour Policy**

Typically labour market policies encompass such issues as collective bargaining, workplace empowerment, a minimum or living wage, training and skills development, worker rights to information etc. For each of these areas there are significant differences between the Base Document and the WP; some of these have macro-economic implications, while others have significant implications for the role of labour in the new South Africa.

In the area of collective bargaining, for example, the Base Document supports a system of collective bargaining 'at national, industrial and workplace level' (BD 4.8.7). The WP, on the other hand, does not refer to workplace level bargaining (3.11.3). The role of workers, as envisaged in the Base Document to ensure that 'unions are fully involved in designing and overseeing changes at the workplace...' (BD 4.8.7), is watered down considerably in the WP (3.11.4). Furthermore, the WP defines the function of the national industrial bargaining forums as merely negotiating 'industrial policy, training and education programmes, job placement and job creation programmes, and the like' (3.11.3). The Base Document goes much further by stating that '[a]greements negotiated in such forums should be extended through legislation to all workplaces in that industry', and it provides for enhanced jurisdiction for the forums to negotiate a wider range of issues, including industrial policy and the implementation of the RDP at the sectoral level, and training, education, job placement and job creation programmes (BD 4.8.8). These latter powers and functions are not referred to in the WP.

Both documents support the establishment of a living wage. However, in line with the basic thrust of the MERG Report (which argued that 'growth is unlikely to be achieved on the basis of the poverty wages received by significant numbers of working people') (1993:162), the Base Document explicitly rejected the view that labour should be seen as a cost, and argued that '[t]he required levels of growth for the successful implementation of the RDP can only be achieved on the basis of living wage policies agreed upon by government, the labour movement and the private sector' (BD 4.8.5). No such reference is made in the WP.

Other points of difference to note include the fact that the WP omits the reference in the Base Document to the use of legislation to 'facilitate worker participation and decision-making in the world of work' (BD 4.8.9); the reference to affirmative action is simply glossed over; and the section on human resource development is lumped in here and dealt with extremely cursorily, compared to the extensive treatment accorded to it in the Base Document.

In these and other areas of policy one can only hope that these matters will be addressed more fully in separate White Papers. However, the danger of sacrificing the integrated and coherent strategy that underpinned the Base Document development vision should be recognised.

The Business View of the RDP WP

South African business appears to be well pleased with the general trends evident in the RDP WP. Writing in the *Sunday Times* Kevin Davie remarks that, 'all signs now are that our policy makers see that the objectives of the RDP are wholly compatible with the three words [privatisation, liberalisation and convertibility] which so interest the money men' (9 October 1994). The *RDP Monitor* notes that 'the private sector, after its somewhat tentative initial endorsement, has come out in full support' (1994:5).

Despite the concessions to free-market thinking evident in the current WP, even neo-liberals and the business sector are not entirely happy with all aspects of the document. While praising recent shifts, they still choose to hammer away at any last vestiges of interventionist policy proposals. The *RDP Monitor* referred to 'two general elements which will disturb some.' These are the 'repeated reference to the entrenchment of trade union and labour rights,' and the 'centrality of the role of the state...' (p.6). *Business Day* expressed its concerns over WP's continuing reference to 'anti-trust' legislation, the mentioning of the phrase 'government will support' in reference to trade and industry policy, and to 'excessive indirect taxation' (fearing, that direct taxes may be raised if indirect taxes like VAT are reduced). Finally the paper expresses a concern that the inclusion of civics in the National Economic Development and Labour Council, will delay decision- making.[8]

Some Comments arising from Recent Global and South African Development Debates

The South African economic policy debate has taken place over a period characterised by dramatic shifts in the global political and economic landscape following the end of the Cold War and the total globalisation of economic activity, and at a time when the intellectual debate over issues such as explanations for economic success in the NICs, continuing (and seemingly) chronic poverty in some developing countries, and erratic economic performance in many industrialised countries, is beginning to be opened up in new ways.

The space for fresh, creative and non-dogmatic thinking and debate on economic theory and policy exists now more than it has for many decades. Regrettably, this opportunity has not yet been fully recognised or adequately seized upon by academics and policy-makers, especially those in the developing world. This sadly appears to be true of policy-makers in the New South Africa despite the work of many progressive South African and international academics (in Economic Trends, Industrial Strategy Project, MERG, the NIEP and other research structures) over the last decade in support of the democratic movement's efforts to develop an alternative development strategy to suit the needs of the country.

Perhaps it is time to remind South African policy-makers of two key lessons with which all those involved in development should be familiar. One relates broadly to theory, the other to comparative development experience. Paul Krugman has recently issued a sober warning against carrying free-market orthodoxy too far. He writes:

> It makes considerable sense for the World Bank and other multilateral agencies to push very hard for liberal policies in developing countries, given the demonstrated tendencies of these clients to engage in economically irrational interventions. But in the back of our minds we should remember that it is not true that economic theory proves that free-markets are always best; there is an intellectually solid case for government promotion of industry - one that has often seemed empirically plausible to sophisticated observers. *In other words, don't get caught up too much in the orthodoxy of the moment*' (1992:32, emphasis added).

A recent review by the World Bank's Operations Evaluation Department of the Bank's own support for industrialisation in Korea, India and Indonesia challenged standard, orthodox, neo-liberal policy prescriptions arguing that:[9]

> the ability of governments to be economically selective should be assessed on a case-by-case basis rather than assumed absent ... the external environment ... and *the stimulus, often provided by government intervention in the factor and product markets, are usually the determinants of success*. It is therefore essential that the external environment, while not relaxing its pressures for competition, provide the needed supports for the 'learning' process to progress and mature (in Bienefeld, 1994:45).

And Michael Watts referring to the state-market debate has concluded that:

> In spite of the continued insistence by the World Bank that the East Asian 'miracles' are exemplary cases of getting prices right..., it is quite clear that they are nothing of the sort. The fiction of the minimalist state is belied by the reality of the state as entrepreneur, banker, distorter of prices, capitalist policeman and promoter of capitalist networks...The state, in any case, is not likely to disappear because in many Third World states the [import-substitution industrialisation] project is often incomplete and cannot be abandoned, entrepreneurship is weak, ... and not least there remains the political intractability of adopting doctrinaire anti-welfarism in the context of massive economic inequalities (1994:11).

The RDP WP, and the recent public pronouncements of ANC and GNU spokespersons, appear to emphasise liberalisation, free-markets, and the building of (domestic and foreign) business and investor confidence, as if these are all that is required for development to occur. As John Sender has recently remarked:

> it remains a mystery why some South African commentators echo the retired Hollywood actor's assertion that there is a simple link between less state intervention, rising business confidence and increased investment. The empirical evidence for such a link in South Africa, or in other developing economies, does not exist (1994 forthcoming).

In the MERG Report, specific policies designed to increase private sector investment rates were proposed on the assumption that such investment (both domestic and foreign) will not just happen in the context of deflation, low levels of economic activity and reduced corporate taxation. It was argued there (as Sender reminds us) that, 'a gradual build-up of public sector investment in infrastructure constitutes an essential precondition for renewed capitalist confidence and the resumption of investment rates characteristic of previous periods of South Africa's economic history' (1994 forthcoming).

Many of those concerned about the discernible shifts in ANC economic policy do not argue for state intervention for its own sake, for ideological reasons, or because they are opposed to the market *per se*. The lessons to be drawn from theoretical and comparative experience are that, despite the highly interdependent nature of the world economy and the dominance of a few powerful industrialised countries, nation states need to, and can build and mould their strategy of development in terms of their own unique economic and political histories and strengths, the demands created by the particular stage of development in which they find themselves, and their particular location within the regional and global economy.

Any serious and honest analysis of South Africa's history, its stage of development and of current local and global conditions would suggest that a strategy of development based on an essentially neo-liberal, free-market ideology, or the magic formula of privatisation, liberalisation and convertibility will be singularly inappropriate. The new government has chosen to understand the possibilities for local and national development on the basis of one narrow and (arguably) ephemeral interpretation of the nature of global interdependence. It is ironic to note that before 1990, South Africa was typically regarded as *sui generis* and unique (Hart, 1993:44). Now the pendulum appears to have swung to the other side: a sort of 'one size fits all' development remedy.

Conclusion

Our critique of the WP has focused virtually exclusively on the macro-economic problems it presents. This is not to deny the value of some of the principles and policy options discussed. The process of finalising and implementing the RDP, we are told, will remain 'people driven'; the document claims to break decisively with the exploitative and cheap labour policies of the past, and a commitment to race and gender equality is repeated several times. While some of the individual principles, policies and commitments are sound, the RDP as a co-ordinated, integrated core investment programme, linking reconstruction, development, growth and redistribution (along the lines set out in the Base Document Vision) has been significantly changed. The current WP is incoherent and fragmented. The possibility of retrieving the earlier vision is eroded daily in the cut and thrust of 'reconciliation' and compromise-making politics within the GNU. This is evident too in the irresolute style characterising negotiations with international financial agencies and representatives of organised domestic (mainly white) capital, and by the dramatic decline in the significance which top policy-makers appear to be according to the trade unions, civics and tripartite economic and developmental forums, as partners in economic-policy making.

Our critical examination of the WP has led us to believe that: the document lacks a clear statement of purpose; it has significantly revised some of the major strategies and policy recommendations of the original RDP; in many cases, it provides neither concrete goals nor timeframes for the achievement of the RDP objectives; fiscal policy has been totally emasculated *a priori* by the fear that fiscal discipline will be sacrificed. Furthermore, monetary policy is set to be independent in its policymaking with no specified measures to make it accountable to the democratic government; proposed foreign trade policy is too general and incomplete given the scope of the GATT and is in any case already being implemented in a highly unco-ordinated fashion; the unconditional extension of the principle of national treatment to foreign investors is in contrast to some of the Base Document's recommendations; and industrial policy remains vague, especially with respect to the nature of government support for selected industries.

An essentially neo-liberal RDP strategy, which is what we are left with, may well generate some level of economic growth: should this happen, the existing mainly white and Indian bourgeoisie will be consolidated and strengthened; the black bourgeoisie will grow rapidly; a black middle class and some members of the black urban working class will become incorporated into the magic circle of insiders; but for the remaining 60-70 per cent of our society this growth path, we venture to predict, will deliver little or nothing for many years to come.

The Base Document did not set out details, targets and priorities for the RDP, and it was the expectation of many that the WP would set out the economic essentials of that vision. Some good work along these lines has been conducted already, such as the macro-economic modelling work of the NIEP which informed their document 'Making the RDP Work', and which was a submission to the RDP White Paper. It is not possible to summarise the NIEP paper here, but that it offers a different and more coherent and integrated programme for quantifying and implementing the original RDP is evident in the following paragraph.

> The approach used in the quantification of the RDP was to calculate the investment requirement necessary to achieve the RDP socio-economic objectives. The initial assumption was that for the RDP to succeed it would require that the *state drive the investment in partnership with communities and, that this investment be complemented by the private sector*. Underpinning this approach was the understanding that the RDP is a programme to achieve *development and growth through a process of redistribution, reconstruction and restructuring*. This philosophy addresses the need for meeting basic needs dealing with the damaging structural consequences of apartheid and, placing the political economy on a path for sustainable growth and development (1994:1 emphasis added).

Coherent alternative investment and development strategies which have been modelled and quantified do exist, although more work needs to be done to refine them. But they cannot be forced onto the national agenda by academics and think-tanks alone.

NOTES

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2 In this paper we will attempt to evaluate the WP on the basis of how it compares with the Base Document with respect to defining strategies for transformation; and in areas where the focus is on implementation, we will critically evaluate whether it delivers an integrated set of strategies and policies to achieve the RDP objectives.

3 This term did not appear in the Base Document. There was, we understand, a last-minute change in the WP's sub-title from 'A Strategy for the Renewal of our Society' to 'A Strategy for Fundamental Transformation'.

4 References to the Base Document will be preceded by the abbreviation BD, (eg BD 0.0.1). All other references will be to the White Paper itself - the one released in September - not the gazetted November version.

5 'The result of current fiscal trends is that South African government debt is rising strongly as a proportion of GDP, and there is an open debate about whether it is caught in a debt trap of mounting interest payments. *This is excessively alarmist*. The debt/GDP ratio was still just 52.5 per cent (including the debt of the black homelands) in March 1994 which is well below the 60 per cent limit set in the European Union's Maastrict treaty, and a long way short of the levels commonly associated with fiscal crisis. Nevertheless, interest payments are now rising strongly as a share of GDP and it would be unwise of the Government to postpone determined measures to remedy the situation' (IBCA:16 emphasis added).

6 Thus, for example, there is a classic slip in section 3.6.6 which states: 'In addition to direct local linkages between manufacturing and the RDP...'. What are we to make of this? Is the RDP merely a government programme limited to infrastructural development, the rest (the real economy) including manufacturing, being outside its terms of reference and left entirely to the private sector to address?

7 In a recent article in the *Cambridge Journal of Economics* Stanners questions the premise that low inflation is an important condition for high growth (1993).

8 At the time of writing official comment on the WP from the IMF and World Bank was not available, though there is little reason to doubt that they will each be pleased with the direction the WP has followed, (22 September 1994).

9 This departmental report was only published after Japanese insistence following the World Bank's attempt to block its publication.

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