Review

THE POLITICAL ECONOMY OF SOUTH AFRICA - TWO JUICY BITES AT THE CHERRY

Chris Edwards

An extended review of *The Political Economy of South Africa: from Minerals-energy complex to industrialisation* by Ben Fine and Zavareh Rustomjee, London: C Hurst & Co (hardback and paperback), 1996; and *The Political Economy of South Africa's Transition: policy perspectives in the late-1990s* edited by Jonathan Michie and Vishnu Padayachee, London: Dryden Press (paperback), 1997.

The greatest compliment that I can pay these books is to say that I am writing this review in parallel with a reading of Gillian Slovo's emotionally forceful *Every Secret Thing* and yet I still find myself able to recommend them as highly readable. For anyone interested in understanding the political economy of contemporary South Africa, I thoroughly recommend both of them. They have almost identical main titles but a clue to the difference in focus is provided by their sub-titles. The Fine/Rustomjee book has more of a historical flavour while the Michie/Padayachee book concentrates more directly on policy issues. Thus I recommend that Fine and Rustomjee is read first followed by Michie and Padayachee.

The Fine and Rustomjee book results from research partly funded by a 1990-92 grant from the UK Economic and Social Research Council but carried out by the two authors since the mid-1980s. Ben Fine's interest in the topic began when he was asked to assess and make recommendations for the ANC on the mining and energy sectors while Zav Rustomjee was working as a chemical engineer in South Africa. Later they came to work together on the research, first at Birkbeck in London, and then at the School of Oriental and African Studies, also in London. I was first exposed to some of the ideas in this book when Ben Fine travelled to Norwich to give some guest lectures at the University of East Anglia in 1993 and it was with eager anticipation that I read the book. I have not been disappointed.

The book starts by setting out the context of the research. Fine and Rustomjee argue that in the 1990s the process of negotiating a political settlement has not only involved a series of compromises which have weakened the commitment to significant shifts in economic power but has also brought a shift in the focus of the literature on the South African economy - from exploring the crisis of the apartheid regime to one of formulating policies for the post-apartheid economy. However they argue that the new post-apartheid literature suffers from a failure to incorporate the insights from the crisis literature. Most striking is the lack of prominence accorded to the most crucial features of the economy, namely the centrality of the mining and energy sectors, the nature of the financial system and the dominant role of the state.

After the introductory first chapter, Fine and Rustomjee's book is split into four parts. The first part discusses the ingredients of successful development in terms of the connections or linkages within the economy and the agencies that bring them about. These concepts are discussed in the context of the debates first about the South Korean economy and then about the South African economy. Fine and Rustomjee argue that it is essential to understand not only the class basis of the state which conditions its autonomy but also the way in which the state changes over time. They give a major example of this by discussing how the 1930s disjuncture between English economic power and Afrikaner political power was removed by economic policies in the post-war period which gave rise to the integration of large-scale Afrikaner capital with English capital.

The six chapters in parts II and III of the book provide a detailed account of the mineral-energy complex and the form that South African industrialisation has taken. Chapter 5 describes the central importance of the mineral-energy complex (MEC), how it includes a number of sectors traditionally allocated to manufacturing, and how, far from decreasing in importance, the MEC has become more dominant. Chapter 6 analyses how, alongside this dominance, the South African economy is characterised by a high degree of economic concentration, with six broad-based axes of capital integrated across the mining, manufacturing and financial sectors. In promoting this integration within the MEC, the state has thereby played a major part in encouraging global operations and capital flight from the private sector to the neglect of domestic investment. But, Fine and Rustomjee argue, it is a simplistic mistake to conclude that the solution to this is the introduction of an anti-monopoly policy in the form of fragmentation or competition. Chapter 7 traces how the inter-penetrating of large-scale English and Afrikaner capitals has taken place in the post-war period. The first phase, in the 1950s, was the formation of Afrikaner finance capital; the second, in the 1960s, was the inter-penetrating of Afrikaner finance into mining; and the third phase, from the 1970s, was the collaboration of MEC capital and the state. Fine and Rustomjee argue that this third phase provided the conditions for the adoption of co-ordinated industrial policies for the first time. However in chapter 8, they argue that the state's instruments (the creation of state corporations, the use of tariffs and industrial decentralisation) used in industrial policy have been uncoordinated and that the main instrument (the use of state corporations and other support from the Industrial Development Corporation) has supported the MEC's core sectors and has not, in general, done much to promote industrial diversification.

Fine and Rustomjee emphasise that these are the historical realities around which contemporary industrial policies need to be evaluated and this is what they attempt to do in chapter 9. They argue that it is not useful to consider industrialisation in South Africa as a succession from consumer goods to capital goods. Instead South Africa has gone in the opposite direction of forward integration from the MEC core and in effect there has been no industrial policy for non-MEC manufacturing.

This takes us on to Part IV or chapter 10 in which they argue that an understanding of the historical specificities of the MEC is essential to avoid the mistakes made by not only the laissez-faire dogma of the IMF and World Bank but also those made by the Industrial Strategy Project which, Fine and Rustomjee claim, falsely dichotomise Fordist and flexible specialisation forms of production. Fine and Rustomjee conclude by arguing that manufacturing in South Africa is not uniformly weak across all sectors, but that considerable state intervention is required to tap the economies of scale and to undertake the expenditure programme needed to provide basic needs. However, they argue pessimistically that the prospects for scholarship based on the material realities of the South African economy are weak as orthodoxy sweeps in both from the established Afrikaner centres of learning and from outside the country.

The Michie and Padayachee book is not part of this orthodoxy. It is an edited collection of papers by nine authors (including the editors) which, as the foreword by Merton Dagut (Dean of the Faculty of Commerce at the University of Witwatersrand) puts it, '...has coherence because the editors and authors share broadly a political conception of the nature of economic arrangements appropriate for a democratic, just and equitable society' (ix). Many of the authors were part of the Macro-Economic Research Group (MERG) which was based initially in the Department of Economics of the University of Witwatersrand and the book's coherence was reinforced by the commissioning of the chapters.

Thus the book which is split into three parts has a degree of coherence which is unusual for an edited collection. Even so there is some lack of coherence. Thus, although part 1 of the book is entitled The Global Context, it does in fact look at both the domestic and international contexts of the post-apartheid economy.

Chapter 1 starts with an overview of the conditions of the South African economy at the time of apartheid and of the constraints imposed by the negotiated concessions made by the ANC, such as the independent status of the South African Reserve Bank. As the general election of 1994 recedes into history but the huge inequalities of South African society remain, so criticism of the ANC leadership by COSATU and the South African Communist Party has become more vocal and frequent. This chapter and the book as a whole are useful for not only articulating and analysing some of these grievances but for putting them into a political economy context.

Chapter 2, by Padayachee, analyses the post-apartheid conditions of the economy in the context of South Africa's international financial relations. He points out how, between 1990 and 1995, the ANC's strategy has been stripped of all commitments to the regulation of South Africa's relations with the international financial institutions and foreign investors. Instead there has developed an unhealthy preoccupation with attracting foreign capital rather than a concern with the raising of investment from domestic sources and the implementation of a once-radical Reconstruction and Development Programme (RDP). A shift towards a neo-liberal framework has taken place partly because of the lack of any tradition of substantive economic policy debate within the ANC, partly because of the combined ideological pressures from South African big business and the international financial agencies and partly as the ANC's partners have been assimilated into the government. The book then switches to an analysis of the relationship between South Africa and its Southern African periphery. In this, the third chapter, Harry Zarenda argues the case for an interventionist regional integration policy within Southern Africa so as to avoid the accentuation of a well-developed core and disintegrating periphery. He points out that the smaller members of the Southern African Customs Union (SACU) have legitimate grievances which if not rectified quickly will further increase polarisation.

In chapter 4 Trevor Bell assesses trade policy reform between 1992 and 1995 and implies that trade liberalisation has gone further than is either necessary or desirable. He finds that none of the many arguments advanced, including pressure from the GATT/WTO, for this rapid liberalisation is convincing.

The second part of the book, consisting of four chapters, is headed Restructuring the South African Economy. In chapter 5, Laurence Harris argues that a policy of radical redistribution in South Africa is consistent with a rapid rate of growth and that the constraint to the latter is not one of real resources but of financing arrangements. Vella Pillay's chapter 6 addresses the financing arrangements. He argues that to bring about a rapid rate of economic growth requires a move away from the restrictive monetary and exchange rate policies followed by the South African government over the past decade. Pillay argues that South Africa has been following a policy of excessive monetary stability advocated by the De Kock Commission in 1985 with the rate of interest being the sole instrument. This orthodox policy is more suited to the needs of a Western industrial country rather than one in which there is a poor black majority and one in which financial markets are highly segmented. Pillay further argues that the independence of the Reserve Bank called for by Jan Lombard, the Deputy Governor, in 1985 is harmful to the development of South Africa and he endorses Edward Osborn's comment in 1994 that the rise in real interest rates in the recent period has (by dampening economic growth) the blood of thousands of unemployed on the Reserve Bank's hands. And yet these orthodox policies have been endorsed first in February 1996 by the *Growth For All* report of the South African Foundation and then in June 1996 by the Government in its *Growth, Employment and Redistribution - A Macroeconomic Strategy* (the GEAR report). Pillay ends the chapter by calling for the adoption of the proposals made by the MERG in 1993.

The stimulating chapters by Harris and Pillay are followed by an equally lively and thoughtful seventh chapter on industrial policy by Ben Fine. As one would expect, many of the ideas in this chapter can be found in the book by Fine and Rustomjee - indeed a neat summary of the latter can be found on one page of this chapter (p131). Thus it is not surprising that Fine is sharply critical of the three established approaches to industrial policy - those of the World Bank, the Industrial Strategy Project (ISP) and the Monitor Group - the main one being that they fail to start with the facts, namely the historical dominance of the MEC. He is particularly critical of Monitor's work based as it is on the analytical weaknesses of Porter's *The Competitive Advantage of Nations*, although he praises Monitor's focus on vertical integration in a variety of South Africa's industries and its strong advocacy of state interventionism. Fine also praises the ISP for focusing attention on the need for vertical integration but criticises it for paying too little attention to the domestic market. What is needed, Fine argues, is investment in basic needs and a reform of the institutional structure which has been moulded to strengthen large-scale Afrikaner capital through state-led expansion around the MEC. The institutional structure needs to be changed to assimilate big corporations into industrial policy and he endorses Pillay's call for a reform of the financial system.

Institutional reform is the subject of chapter 8 written by Jonathan Michie, but this time the focus is on the institutional reform needed to tackle South Africa's large scale unemployment problem. After reviewing the policies set out by the

South African government prior to the 1994 election and by the *Growth For All* and GEAR documents, and after reviewing wage bargaining models in various countries, Michie argues the case for social corporatism in South Africa with a greater role for NEDLAC, although he highlights the difficulty of incorporating the mass of unemployed into the process.

Part three of the book contains three chapters under the heading of Policy Formulation and Implementation. In chapter 9, Martin Wittenberg reviews the economic debates in South Africa in terms of the Hirschman categories of futility, perversity and jeopardy. He concludes that in South Africa a virtuous circle of public expenditure and growth are likely through 'crowding-in' and Verdoorn productivity effects and that the criticisms of such a strategy by writers such as Moll and Nattrass are misplaced. This review of the economic debates is followed by an analysis in chapter 10 by Asghar Adelzadeh of the major macroeconomic models of the South African economy which have been made public (namely those by the World Bank, the National Institute for Economic Policy, the Industrial Development Corporation and the Development Bank of Southern Africa). He spells out the policy recommendations which follow from these but argues that none of these models has been systematically validated and, in a footnote to the chapter, he is sharply critical of the GEAR report arguing that the Reserve Bank model on which it was based has never been made public. He also points out that GEAR itself admits to severe limitations of the Reserve Bank model.

Finally in chapter 11, Michie and Padayachee point out that for two years or so after the 1994 elections, South Africans celebrated the miracle of the political transformation, but 'by early-1996 much of the goodwill ... was fraying at the edges' (p224) as the levels of criminality began to reach near-anarchic proportions. Basic needs in the form of water and electricity supplies have improved for the African majority since 1994 but the joblessness situation has worsened. It was in this context that 1996 saw an intensification of the political debate with policy statements from the right-wing South African Foundation, from the South African labour movement, from the ILO and from the Ministry of Finance in the form of GEAR. The outcome of these debates (Michie and Padayachee argue) is that, by 1996, the Government's economic strategy could only be characterised as a neo-liberal one and they end the chapter (and book) by speculating why. They argue that this was the combined result of a forceful ideological offensive in the 1990s from Washington institutes (WB and IMF), some Western governments, local business interests, and the De Klerk regime; and the growing black middle class within the ANC, allied to the downfall of the Soviet Union, the ANC's principal political and military supporter for decades.

However, they are dismissive of the argument which is commonly put forward, namely that there are tight constraints imposed on the South African government by the process of globalisation. This, they argue, is an excuse for inaction and instead the neo-liberal policies followed have constituted self-imposed structural adjustment designed for an incipient black bourgeoisie. They end by suggesting (like most of the authors of the other chapters) that state-led growth and development is the only strategy which offers the possibility for economic change sufficiently deep and sustainable to address the problems of poverty and inequality which was the legacy of the apartheid regime. It is, they suggest, behind this strategy that the ANC/SACP and COSATU alliance must unite, up to the 1999 elections. This they point out was the state of affairs which provided the motivation for the book.

For anyone concerned about the Political Economy of South Africa, the 500 or so pages of these two books provide a basic need - namely food for thought. And at a combined cost (in the UK) of less than 30 pounds (R225), they are a good investment.