Transition and the Political Economy of South Africa

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Introduction

With South Africa currently undergoing a period of transition, it is hardly surprising that the same should apply to academic research. To varying degrees, who studies what and how have also been subject to change. No doubt, this is to be welcomed in that we learn from the experiences of transition itself and the light that they shed on the reinterpretation of the past and prospects for the future. I am, however, disturbed by the extent to which much of value in the scholarship of the past is being lost. It is almost as if the lessons of apartheid should be set aside along with the racist regime itself. For this reason, having been involved in both policy analysis and research on the South African economy for over fifteen years, the account that follows is, by the normal standards of academia, unduly personal in its content, even an exercise in self-indulgence. This is motivated, hopefully excused, by the wish to make clear in part the intellectual and political position from which my contribution evolves.

In this context, the paper brings together a number of themes. The first is to examine the broader intellectual and ideological climate in which policymaking is being made and understood within South Africa. At the time of transition, the neo-liberal Washington consensus was at its height, and a concerted attempt was made by both the World Bank and the IMF to ensure that the prospective ANC government would toe the line. Whilst the extent to which the Washington institutions succeeded is a matter of dispute, especially by those responsible for policy, the incontrovertible commitment to sustain business confidence has undoubtedly tilted policy towards neo-liberal postures. Paradoxically, however, just as the GNU was formed, the Washington consensus was itself under assault from within, as the World Bank has sought to present itself as more state-friendly and less free-market dogmatic with the promotion of its post-Washington consensus. My concern is that the post-Washington consensus, and the more general and simplistic extension of economic reasoning to non-economic matters, should not set the developmental agenda and debate over South Africa as the Washington consensus did previously for other areas of the world (where it took the form of debate over market versus state).

The rationale for this opposition to the post-Washington consensus (and its presumption that both the economic and non-economic can be explained by reference to market imperfections) is its failure otherwise to address underlying economic and political structures and interests, and their continuing dynamic. In the case of South Africa, and this makes up my second theme, the economy has been dominated by what I have terms a minerals-energy complex (MEC). Whilst the shifting dynamic and structure of the South African MEC can be traced historically, it is currently comprised of a highly concentrated conglomerate structure that dominates the economic landscape. The purpose of this paper is then, first and foremost, to encourage future research, and policymaking, to recognise the economic and political implications of this corporate structure (for which lessons from the past can be instructive if not definitive).

Confronting the Past

It was in 1984 that I was first approached to contribute towards ANC economic policymaking. At that time, I was half-time on secondment as a research editor at the Industry and Employment, I&E, Branch of the Greater London Council which was about to be abolished by Mrs Thatcher. Its various activities were to be devolved to higher or lower levels of government, with the exception of five functions, including economics, for which it was considered there was no need for a dedicated, London-wide authority.[1] Secure in the knowledge that its policies would never be implemented, and drawing upon its workforce of almost 200 including many economists,[2] I&E created a wealth of policy documents including the London Industrial Strategy, LIS, and the London Labour Plan, LLP, GLC (1985 and 1986). The first of these was heavily influenced, at least for a number of sectors, by the newly emerging flec-spec approach associated with Piore and Sabel (1984) which has subsequently proved influential in South Africa through the Industrial Strategy Project, ISP.[3] I was, and remain, sceptical. For the UK, given the major role played by multinationals in Britain's deindustrialisation, and the decline of inner city manufacturing, the GLC was powerless to intervene in the absence of a supportive and determined central government that was most notably absent. Far from the veracity of flec-spec dictating GLC policy, the inability to intervene other than at the level of small-scale firms rendered it an attractive policy framework to lend ideological support to those limited GLC interventions that were within the bounds of possibility. In practice, such industrial interventions were little short of disastrous.[4]

The early eighties also marked the end of a period of concern about the long-term performance of the British economy, its having given way to debate around the putative productivity miracle of Thatcher's second term of office. Fine and Harris (1985) both critically assessed the earlier literature and also offered an explanation of its own. It centred on the lack of coherent long-term industrial planning in the UK, and was based upon the interaction between economic and political factors. British finance was, and remains, short-term and international in its orientation, unlike its West German and Japanese counterparts. Both in its lending and in its direct and indirect influence over policy - financiers in high places and the rule of the markets, respectively - British banks have had no interest in providing long-term finance for and as a lever upon the restructuring of British industry. This has itself been dominated by multinational corporations with global strategies, deploying the British workforce on the three low basis, low investment, low productivity and low wages. The latter reflected, contrary to popular wisdom, the weakness of the British trade union movement, despite its reputation for militancy, especially in pushing successfully for industrial policy. In short, neither individually nor collectively through the state, were the three great powers in the UK able or willing to adopt appropriate industrial strategy. Policy remained piecemeal, uncoordinated, without long-term objectives and, given these characteristics, subject to shifts and turns. In this respect, Thatcher's economic policies, even privatisation, were to be understood as highly interventionist, even if under the guise of laissez-faire ideology, and to reflect considerable continuity, rather than a break, with the practices of the past.[5]

At the same time as all of this, I was also serving as an economic advisor to the British National Union of Mineworkers, NUM. One of the outcomes of the 1984/85 strike, a concession to stop the pit deputies from joining the strike, was for the workforce to have the right to go to independent tribunal in case of pit closure.[6] Economic evidence submitted to the tribunal focused on the social costs of closure, comprising redundancy payments, unemployment benefit, lost output, lost direct and indirect taxes, and the knock-on effects to other industries, the local community and balance of payments through lost expenditure and sales.[7] Because of longstanding work on the coal industry, my first task for the ANC, through the EROSA group,[8] was to assess the prospects for mining.

As a lefty with no particular previous experience of South Africa, my knowledge was predominantly gleaned from the anti-apartheid movement, with its emphasis in the economic sphere focusing on trade boycotts and the role of direct foreign investment by multinationals into South Africa. However, my entry into research was dominated by two publications, each of crucial and complementary significance. One was the Report of the Commission of Inquiry into the Electricity Industry, ESCOM (1982) and the other was Duncan Innes' (1984) account of Anglo-American. From the two publications, I gained an understanding, respectively, of the significance of the state and of domestic corporate capital in the economy, and, by means of a short and obvious analytical step, the interaction between the two. After more detailed research on mining and energy and on corporate structure, I early on formulated the notion that South Africa has been dominated by what I ultimately termed a minerals-energy complex, MEC, to be discussed below.[9]

The rest, as they say, is (personal) history – a matter of filling out over the next decade, both for academic and policy reasons, the history and continuing dynamic of the MEC. After a two-year research project funded by the UK Economic and Social Research Council, Fine and Rustomjee (1997) eventually appeared.[10] In policy work, I was heavily involved in MERG (1993), taking responsibility for the chapters on housing, schooling, electrification and health, quite apart from the inconsistent compromise with ISP in the chapter on industrial policy. Subsequently, with the informal but complete disowning of MERG by the ANC, my work has been more oriented around the trade union movement, although I was asked, to my surprise, and did serve as a foreign expert to the Presidential Labour Market Commission, LMC (1996).[11]

The Intellectual Climate

Over the intervening period, the intellectual climate in which industrial policy has been debated has changed considerably, both externally and within South Africa (with these not being independent of one another). At the outset, there was concern over the nature of (South African) capitalism in the current period, giving rise to the notion of South Africa for the Economic Trends, ET, group, precursor to ISP, as a form of "racist Fordism", as in Gelb (ed) (1991). This stance was clearly concerned to adopt the then fashionable regulation approach to South African conditions. In the mainstream, however, the 1980s marked the rise to prominence of the neo-liberal Washington consensus, which both peaked and marked a watershed with the appearance of the World Bank's (1993) understanding of the East Asian Miracle as the state doing what the market would have done had the market been working perfectly. Agree with them or not, the IMF and World Bank set an agenda of state versus market,[12] and it was focused on the issue of why some capitalisms were more successful than others.

More recently, there is evidence that the Washington consensus is crumbling, from an assault from within the World Bank itself. I intend to dwell on this change, partly because it is a current obsession of my own but also in order to visit the shape of the industrial policy debates of the future rather than simply revisiting those of the past.[13] The evidence for the emergence of a new consensus is provided by the remarkable speech made by Joe Stiglitz (1998) in early 1998. Here, even more than is suggested by the title of his talk, "More Instruments and Broader Goals: Moving Towards the Post-Washington Consensus", Stiglitz has been seeking to establish a new agenda for economic development. He deliberately perceives himself not only as broadening the scope of policymaking in terms of goals and instruments but also as placing such policymaking on a sounder understanding of how the economy, and especially markets, work or equally important, do not work. Broadly, then, Stiglitz explicitly offers a rejection of the Washington consensus and offers a Post-Washington consensus in its place. Nor does this proposed intellectual and policy watershed emanate from some disillusioned academic or NGO activist. Stiglitz is serving as Senior Vice President and Chief Economist to the World Bank as well as having previously chaired the US Council of Economic Advisors. In short, the Washington consensus was under assault from within. Stiglitz (1998) observes:

> (The Washington consensus) held that good economic performance required liberalised trade, macroeconomic stability, and getting prices right. Once the government handled these issues - essentially once the government "got out of the way" - private markets would produce efficient allocations and growth ... But the policies advanced by the Washington consensus are hardly complete and sometimes misguided. Making markets work requires more than just low inflation, it requires sound financial regulation, competition policy, and policies to facilitate the transfer of technology, to name some fundamental issues neglected by the Washington consensus.

For Stiglitz himself, in contrast:[14]

> Trying to get government better focused on the fundamentals - economic policies, basic education, health, roads, law and order, environmental protection - is a vital step. But focusing on the fundamentals is not a recipe for a minimalist government. The state has an important role to play in appropriate regulation, industrial policy, social protection and welfare. But the choice is not whether the state should or should not be involved. Instead, it is often a matter of how it gets involved. More importantly, we should not see the state and markets as substitutes ... the government should see itself as a complement to markets, undertaking those actions that make markets fulfil their functions better.

The intellectual basis for the new consensus is readily identified, not least through Stiglitz's own work over the past two decades.[15] Essentially, the motivating idea is very old - that market imperfections can justify state intervention to rectify them although, in the wake of the Washington consensus, the state is no longer seen as the source of an all powerful and benevolent corrective. State failure must be no worse than the market failure it is designed to remedy. Traditionally, market imperfections have been seen in terms of the conditions under which a perfectly functioning market fails to prevail - as for the presence of externalities, increasing returns to scale or monopoly pricing. The new twist, however, is to broaden the scope of what constitutes market imperfections. These are, in addition, now organised around informational imperfections and asymmetries of various sorts, including the presence of transactions costs, so that market outcomes depend upon who has what information before, during and after the economy's passages in and out of exchange.

In short, especially in formal modelling, the analytical basis for the post-Washington consensus is extremely restrictive and weak, especially from the perspective of anyone not wedded to mainstream economics. Indeed, it is best seen as resting upon two fundamental characteristics which can both be understood as reductionist or the interpretation of economic and other social relations through the narrowest of explanatory prisms. On the one hand, there is the reductionism to individual behaviour. On the other hand, there is the reductionism to market imperfections based on informational imperfections. Essentially, the capitalist economy is seen as a construct of imperfectly informed individuals, imperfectly coordinated through the market place. It is little short of an exaggeration to claim that because more or less any outcome can be explained in principle on this basis - the real world is a market imperfection - it is not necessary to incorporate any other analytical principles. Indeed, it is simply a matter of identifying in practice the wide variety of informational imperfections and how they are handled in particular contexts. Policy is concerned with handling them better than leaving them to the pure market.

Such an approach cuts a destructive swathe across the vast majority of social science, including radical political economy. Concepts such as class and power simply cease to have any purchase.[16] The significance of, and shifts in, economic and social structure can only be understood on the basis of microeconomic foundations. The idea of development itself, or the transition from one stage of development to another, are simply reduced - levels of per capita income or productive resources aside - to the alternative arrangements for dealing with informationally-based market imperfections.

Paradoxically, then, the post-Washington consensus is able to be unlimited in its grasp over subject matter precisely because of the narrow limits within which it is economic reductionist. It can deal with the regulation of the financial system, for example, its efficiency, and the protection of shareholders without once mentioning the economic and political power and structures embodied in a financial system. In this respect, it is worth setting such new developments within economics in the broader context of the shifting role of the discipline as a whole. For, as argued elsewhere,[17] the relationship between economics and other social sciences is currently undergoing a change. Economics is aggressively seeking to colonise the other social sciences by extending its methods to them, treating non-economic or non-market relations as if they were economic or subject to the "economic approach".

This is most apparent, and the term is to be found, in the work of Gary Becker and his followers who proceed by simply universalising the approach based on utility maximisation to all areas of life, including those that are traditionally perceived as lying outside the domain of economics.[18] This has allowed for considerable advance into some of the areas concerned, most notably in the general, and now uncritical, acceptance of the notion of human capital. It is also apparent in the new household economics and the new political economy or any analysis incorporating simplistic notions of rent-seeking, the new institutional economics, the new development economics, etc.

A moment's reflection suggests how successful such colonising efforts have been, not least within development economics. Further, the informal appropriation of formal results conceals their reductionist content and origins so that concepts such as human capital and rent-seeking have become uncritically received as part of the lexicon of development discourse. It is surely no accident that Stiglitz's counterpart at the World Bank in the 1980s should have been Anne Krueger, who can herself be seen as the counterpart to Becker within the field of development economics. In her hands, his methods were applied to the problems of development, and policy readily followed as in the ideology of getting the prices right, the levying of user charges, and privatisation. The world was to be interpreted as a benevolent, if obstructed, market and to be converted to it as far as possible.

The colonising designs of economics through the Becker/Krueger universalising of its methodological individualism has, however, been constrained, at least in analytical principle, by two shortcomings. First, whilst the economic and non-economic are analysed on the basis of identical principles, this leaves unexplained the division between the economic and the non-economic. These divisions might be taken as given or an explanation can be proffered, for example, on the basis of transaction costs - with doing the business being more efficient through informal means rather than the market. Nonetheless, the division between the economic and the non-economic, and the allocation of activity within and between them, is only poorly addressed, especially in the context of development and change in socio-economic structures. Second, as a generalisation of the first point of the inability to explain the distinction between the economic and the non-economic, the social content of the theory based on the methodological individualism of neoclassical economics seems incapable of explaining the presence of social structures and institutions, let alone classes and the state, whose existence is glaringly obvious. How could they arise on the basis of the atomised behaviour of individuals?

This is where the new microeconomics with which Stiglitz is associated has given rise to a most significant result as far as shifting the boundaries of the scope of economic analysis is concerned, and its capacity to address the social. In what appears to be a squaring of the circle, the new microeconomics allows for the explanation of <u>social</u> structures and institutions even on the basis of <u>individual</u> optimisation. Faced with imperfect information, individuals can decide to create or engage in socially structured activity both within and between market and non-market forms of organisation. These forms become endogenous on a microeconomic basis, where previously they were taken as exogenous.

In particular, especially for Stiglitz, it becomes imperative to study how informational imperfections that arise within, and are transmitted through, the market might be corrected by non-market institutions. As seen above for the regulation of financial systems, this entails a role for the regulatory state where other non-market mechanisms (such as culture, custom, or business organisations including trade unions) do not emerge spontaneously. Significantly, apart from promoting itself as the knowledge bank, one of the most prominent items on the World Bank's research agenda has been the notion of social capital - an ideal form through which economic can be extended to non-economic analysis, and economic to social engineering.[19]

Before departing the Post-Washington consensus, it is worth considering why it has emerged. As Wade (1996) has shown in detail and is now of common knowledge, the most recent shifts in the position of the World Bank have had very little to do with consideration, let alone acceptance of, the overwhelming weight of scholarship that has long been turned critically upon the old consensus. It has been studiously ignored in the past and is rarely a point of reference for the new consensus unless to be parasitically incorporated on the terms of the reductionisms previously outlined.

Nor is the new consensus a response to the emergence of the new microfoundations, for Stiglitz and others have been active in this area for two decades. Rather, as Wade argues, in part against a background of intellectual sclerosis within the Bank, the increasing significance of Japan as donor, foreign investor and self-reflective case study has rendered the old consensus increasingly unacceptable.[20] Japan can hardly be expected to fund a set of policies, and an underlying ideology, which both denies its own experience of having been heavily interventionist and its own interests in promoting industrialisation and growth in the countries where it is directing foreign investment.

Indeed, the recently edited book by Ohno and Ohno (eds) (1998) reveals the extent to which there is a convergence between Japanese developmental thinking and the new consensus. Ohno (1998, p. 4) highlights the following differences with the old consensus. First, the need to attach priority to the real economy:[21]

> Most Japanese aid officials find such obsessions with finance and the macroeconomy narrow and unbalanced. True, inflation must be dealt with but not <u>at all costs</u> to the society, especially when the country is distressed by collapsing output, joblessness, political instability, ethnic conflicts, lawlessness, and public discontent. Under such adverse circumstances, the highest priority for Japan would be the <u>real</u> economy and <u>not</u> the financial side: how to arrest the fall in output, how to secure jobs, how to initiate revival and industrial restructuring, etc. These real concerns take precedence over money, budget, and inflation.

Second, orientation around long-term plans needs to be attached to annual targets; third, the positive impact of government needs to be emphasised in promoting the market and marketization, especially "important in the early stages of development and in economic crisis", p. 7; fourth, the process of development is slow and not subject to quick fixes; and, finally, there is a need for specificity in dealing with particular countries, issues and sectors. Mainstream neoclassical economics is considered entirely unsuitable in contrast to the welcome insights offered by Stiglitz, a view supported by Hara (1998) who praises the new information-theoretic economics for its capacity to design institutions to be compatible with incentives. Only a mild note of caution emerges in the "Afterword" of Ohno and Ohno (1998, p. 310) who advise study of the different approaches to development economics prior to the emergence of the neoclassical orthodoxy.

<u>From Post-Washington Consensus to South Africa</u>

What lessons can be drawn from this somewhat personal overview of intellectual developments over the past two decades? Begin, first, with the Post-Washington consensus. I take it to be uncontroversial that South African economic policy has been heavily influenced by, and has even converged upon, the old consensus as evidenced, for example, by the shift from the Freedom Charter to the RDP and from RDP to GEAR. This is doubly unfortunate because, in view of its special status, South Africa could have played and still could play a major role in hastening the demise of the old consensus and in determining the shape of the new. Instead, especially in macroeconomic policy which has such a profound influence on industrial performance and the scope for industrial policy, South Africa finds itself trailing behind the opportunities that are being opened up by the new, more progressive, consensus.

In particular, I would emphasise two salient factors drawn from the new consensus which are of significance for South Africa. One is the general institutional capacity to formulate, deliver and monitor policy which the new consensus perceives to be critical in view of the market imperfections to be corrected. My attention was initially drawn to this during the MERG work in 1993 on provision of social and economic infrastructure. I argued that the major constraint on provision of basic needs would be the institutional capacity to deliver, particularly if it was presumed that the major constraint would be levels and terms and conditions of finance. The one exception, I suggested, would be electrification because of ESCOM's capability and incentive to deliver in view of excess generating supply. Unfortunately, my prognosis for health, schooling and housing has also proved correct (and these have significant knock-on effects for industrial performance and policy). I also took up the issue of institutional capacity to deliver in papers on industrial policy, Fine (1997a and c), arguing that until such institutions as the IDC, BTT, Competition Board, DMEA, Reserve Bank, etc, let alone the "institutions" of large-scale corporate capital, are fundamentally transformed, South African industrial policy will be marked by considerable continuities rather than breaks with the past. Further, there is a need for coordination of policy across government, full social-cost benefit analysis of impact, appropriate procedures for monitoring conduct and outcome of policy, etc.

Further, my paper on the steel industry, Fine (1998c), was sponsored both by NUMSA and Dorbyl, the latter a major car component manufacturer, because of concern with the high price of domestic steel charged by ISCOR relative to export prices. I found that the Competition Board, the Board of Trade and Industries, and the DTI all had insufficient powers, capacity, and/or coordination to correct a situation that has long been recognised as damaging to manufacturing development and employment generation. However, I want to add a word of caution here. It is very easy to explain such situations in terms of institutional deficiencies. But institutions should never be seen as neutral relative to economic and political power. If they are inadequate, why is this so and why are there insufficient pressures to change them? Whose interests are served by institutions remaining the same or changing in particular ways. Nor is this issue confined to steel and its vertically relations with domestic industry. The same applies to the universally acknowledged fragmentation of the car industry, to the uneasy relations around textiles and clothing, and so on. This will be taken up later in terms of the lack of commitment of large-scale capital to sort out these problems or to press for institutions capable of doing so.

For the moment, however, consider the position taken by Japanese authors in this context. In case those wedded to the new consensus become too heartened by the support they gain from the Japanese, it should be noted that authoritarianism is the preferred form of government to ensure an appropriate developmental state in the early stages of industrialisation.[22] Generally, this is now interpreted as undesirable on grounds of distribution, democracy, and human rights more generally. Research is now suggesting that the latter are good for economic performance rather than a hindrance, Haggard and Webb (1993). Hopefully, for South Africa, such authoritarianism in not an option. But it should not be confused with a rather different aspect of the developmental state than the oppression of working people. It concerns the disciplining of domestic capital, ensuring its commitment in general to industrialisation and also to particular strategies. In this respect, South Africa does not seem to have learnt the lesson of the East Asian tigers.

The other immediate institutional lesson to be drawn from the new consensus concerns the nature and functioning of financial systems – a particular obsession of Stiglitz himself. For him, informational market imperfections between borrowers and lenders can lead to interest rates that are too high, markets for funds that do not clear, and absence of markets altogether where risks (and returns) are high. Whilst these seem to be endemic features of the South African financial system, they cannot be explained on the basis of new consensus, as argued in detail in Fine (1997a).[23] For, even though the South African system is reputedly based on the British system in terms of financial markets and regulation, and the UK also suffers major deficiencies of the types mentioned, the major difference between the South African and a British or US market-based system (as opposed to German or Japanese bank-based system) is that the financial corporations and industry are owned by the same conglomerates. There should be no problems with coordinating asymmetric information and monitoring performance!

As argued by Ayber et al (1998), the problem with the new financial systems literature is that it focuses on a variety of informational problems between borrowers and lenders rather than on the extrinsic conditions within which they operate and over which they also can exercise a direct or indirect influence. Specifically, what has characterised the bank-based model is not simply specific types of assets (long-term for industrial investment) nor bank representation in industrial management (to overcome informational asymmetries), but highly supportive and even compelling state policies both for industry and in monetary policy. This is precisely what is absent in South Africa with limited commitment to ensuring the provision of adequate finance for investment, nor the industrial and financial policies to induce it.

The second lesson, then, is that, although the new consensus opens up the policy debate beyond that allowed by the old, it does so on too narrow a basis. At an abstract level, this is because of its dual reductionism to individual optimisation and informational asymmetries. This does allow for Keynesian/welfarism/modernisation to be broached but on an even narrower terrain than its previous incarnation during the post-war boom and the McNamara era at the World Bank. The limitations of the new consensus have already been criticised for matching the role of government to its capabilities without sufficiently seeking to strengthen the latter and without applying the same critical criterion to the private sector, and, under the rubric of good governance, etc, extending the interventions of the World Bank and IMF beyond their traditional confinement to advice and inducement through <u>economic</u> conditionality.[24]

<u>From PWC to MEC</u>

In addition, especially in the South African context, the weakness of the new consensus is most marked in its failure to address underlying economic and political power – other than as institutions, information and incentives. Here, the third lesson concerns the continuing significance of the MEC to the South African economy. Here, two analytical aspects are involved – what is meant by the MEC and what is its current structure and dynamics.

As discussed in detail in Fine and Rustomjee (1997), the MEC is to be understood as a system of accumulation specific to South Africa and its history. At the simplest level, it comprises a core set of activities organised in and around energy and mining. Contrary to majority opinion, these core sectors continue to carry a, if not the, major determining role in the economy. Further, they have been attached institutionally to a highly concentrated structure of corporate capital, state-owned enterprises and other organisations such as the IDC which have themselves reflected underlying structure and balance of economic and political power.

In the 1930s, there was what has been termed a disjuncture between the economic power of mining capitalists and the political power of Afrikaners. The post-war period has witnessed the erosion of this disjuncture in a particular way. During the 1950s, Afrikaner finance capital was built up. In the 1960s, it incorporated ownership of productive capital, not least in mining itself. Until this point, industrialisation only proceeded on a piecemeal basis according to limited diversification out of the MEC core sectors and import-substituting industrialisation for consumer goods under heavy protection. Notably absent was vertical integration of and between the two. This reflected a lack of commitment on the part of the mining houses, lack of resources on the part of Afrikaner capital, and the political impossibility of the state adopting industrial policy to support large-scale capital along a programme of industrialisation.

In the 1970s, with the creation of large-scale Afrikaner capital and its integration with the corporate sector as a whole, coherent economic policy became possible for the first time. However, the decade was marked by oil and gold price increases. Economic policy became heavily oriented around a state-sponsored investment programme to expand the core sectors. At the same time, South Africa's conglomerate structure was further consolidated as profits from mining were deployed through the financial system to gain ownership across many sectors. By the 1980s, with the decline both in oil and gold prices, the apartheid system was in crisis, and investment stagnated, precluding a programme for industrialisation.

The current structure and dynamic of the MEC has changed again. For it is heavily dependent upon the globalising strategies of South African conglomerates. They are little prepared to commit their financial resources to domestic investment in industry, and they are equally concerned to integrate their domestic operations with their international interests. There is no reason why these should coincide with the imperatives of generating viable domestic industry, given the age of capital stock, lack of vertical integration, lack of intermediate and capital goods, and a general pre-disposition to oppose interventionist policy in case it becomes more radical. By the same token, there is extreme pressure for the removal of exchange controls on domestic corporations in order to be able to engage in capital flight. The ethnic divisions between white capitalists have been resolved. It would be unfortunate if those with black capitalists focused primarily on promoting small business and creating a share for blacks within big business without unduly affecting the scale and scope of domestic industrialisation.

Concluding Remarks

It should be apparent how earlier concerns confronted in work for the GLC, the British miners, and on the British economy, have had an influence on my understanding of the South African economy and how industrial policy needs to be understood and formulated. On the other hand, unlike the contributions of many others, neither an analytical scheme nor comparative experience has been imposed on South Africa in an as if way. Rather, analysis has proceeded from the economic and social realities of South Africa itself, as captured by the notion of the MEC. This involves an understanding pitched at different levels of analysis, ranging from consideration of individual sectors, for example, to the shifting configurations and dynamics of economic and political power. Whilst I believe that the case for continuing to understand the South African economy in terms of the MEC remains incontrovertible, I am sufficiently sensitive to the realities of the South African situation to recognise that this view remains little known let alone accepted. However, I can still press, whether through an understanding based on the MEC or not, that the major issues of political and economic power be addressed in formulating industrial policy. Currently, the South African conglomerates may not make industrial policy but they do determine its scope and impact. Any chances for success depend upon their commitment, voluntary or coerced, to industrial development at home.

Such advice to putative policymakers has its counterpart in academic endeavour. The democratic transition in South Africa seems to have been associated with an equally remarkable shift in the orientation of scholarship, especially where political economy is concerned. Whilst the apartheid era was marked by oppositional scholarship of the highest quality and originality, not least in debating the relationship between capitalism and racism in the South African context, the associated methodologies and critical stances involved seem subsequently to have been lost. No doubt, there are a number of reasons for this: a loyalty to the ANC, the loss of academics to government posts, the shift in the broader intellectual environment, the imperatives of policymaking as opposed to oppositional polemics, the enhanced capacity for South Africa to be included as another case study for continuing or new orthodoxies, and so on. In other words, just as there have been powerful economic, political and ideological factors underlying the dynamic of South African industrial policy, and economic policy more generally, so there have been heavy influences behind what might be termed the neutralisation of the traditional perspectives attached to academic research on the South African economy. If I have managed to delineate some of these, not least in terms of the heavy influence exerted by the World Bank on the developmental agenda, I consider that I can congratulate myself on a job half done. To finish off, it is also necessary to persuade of the need to renew the commitment to an analysis of South African capitalism that is based on both continuities as well as shifts in the structures and dynamics of economic and political power.

Footnote

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unpublished paper, Fine (1998d), originally presented to the TIPS Conference in Johannesburg, September, 1998.

1 The others were general strategic planning, policing, ethnic minorities, and women.
2 Affectionately dubbed GLCSE since many of these were drawn from the CSE, the UK Conference of Socialist Economists.
3 See ISP (1995) and individual sector studies. Significantly for what comes later, the ISP was only marginally interested in heavy industry and addressed it only late in its programme of research.
4 The true story of social criteria sacrificed to commercial imperatives and the wasted investments in, to put it kindly, undeserving firms has never been told. Loyalty to the GLC, especially under the threat of abolition, and simple lack of facts made available, have muted criticism. For the price of a drink, I am happy to redress the balance, and Vella Pillay, as a board member of the GLC's Greater London Enterprise Board, is able to tell even more. For my critique of flec-spec in the South African context, see Fine (1995a) in response to Rogerson (1994) but also Fine (1998a, Chapter 4).
5 See Fine (1997d) and Fine (1997f) for consideration of South African privatisation.
6 In the event, this minor victory proved Pyrrhic. The Coal Board still insisted on closure even against tribunal recommendation, interpreting the wording of the agreement by the letter rather than the spirit, in the sense of only having to take tribunal conclusions into account and not to be bound by them. The employer also threatened punitive redundancy terms in case the workforce undertook the option of tribunal reference.
7 For a full account, see Fine (1990).
8 Economic Research on South Africa, set up as the counterpart to the earlier RESA, Research on Education for South Africa.
9 My first EROSA (1987a and b and 1988) papers covered electricity, coal and gold. Until the DEP (Department of Economic Planning, later Policy) was established within South Africa, EROSA appears to have played a major research role in formulating economic policy although, like MERG after it, the primary concern was creation of indigenous research capacity. Note that the notion of mixed economy for South Africa, now forgotten, emanated from EROSA through Laurence Harris. It seems to have been designed to defend the role of the state in the economy whilst appeasing laissez-faire critics. In retrospect, it appears to have had the opposite effect, paving the way for GEAR through the RDP.
10 For a more detailed account of work around the MEC, see Fine and Rustomjee (1998) in response to Bell and Farrell (1997), as well as their rejoinder, Bell and Farrell (1998).
11 My colleagues at SOAS, John Sender and John Weeks, collaborated with Guy Standing to produce the ILO (1996) background report for the Commission.
12 For a critique of this analytical framework, see Fine and Stoneman (1996).
13 The following draws upon Fine (1999b).
14 See also Stiglitz (1997), in view of the success of the East Asian economies:

> I have already referred to the intellectual impact that this has had: development is possible, and successful development requires, or at least is enhanced by, government undertaking appropriate policies that go well beyond simply getting out of the way of the market. While there remains an active debate about what are the precise lessons to be learned, and to what extent the experiences of East Asia are replicable elsewhere, there remains little doubt, at least in mind, that government played a critical, catalytic role.

15 For an early statement of the theoretical principles for the new development economics, see Stiglitz (1989). For a most recent statement, see Yusuf and Stiglitz (1999), remarkable not least for the unwitting presumption that all theoretical issues are settled but no policy issues because of the complex and contingent incidence of market imperfections.
16 See Stiglitz's (1993, p. 111) response to the relatively mild suggestion from Bowles and Gintis (1993) that exchange is not only institutionally driven but also "contested:

> There are good economic reasons, beyond the exercise of "power" (whatever that much-used term means) for the existence of hierarchical relationships.

17 See Fine (1997b, 1998b, and 1999a, c and h).
18 See Becker (1996) and Tommasi and Ierulli (eds) (1995). A critical assessment of Becker's work in the light of some of the themes explored in this paper is provided by Fine (1995b and 1997e).
19 On social capital, see Fine (1999 and d-g). See also Hildyard (1998) for more general disquiet about the interventionist designs inherent within the post-Washington consensus.
20 See Wade (1996) for an account of the conflicts around The Miracle. See also Gyohten (1997) and Ohno and Ohno (eds) (1998) but especially Shiratori (1998, p. 81), for whom, in contrast to the neoclassical view taken within the World Bank's East Asian Miracle:

Competitive advantage should be understood in a dynamic context, not a static one as used in the neoclassical approach. It is theoretically justifiable to select a currently uncompetitive industry that is judged important for an economy's future and accelerate its development using policy instruments.

21 GEAR take note!

22 See Murakami (1998) and Watanabe (1998).

23 In this paper I also reject the use of measures of effective protection as a device in formulating trade policy and adopt a pessimistic stance for South Africa on the level and impact of inward foreign direct investment. Much more important is the role of domestic investment (and capital) flight attached to South Africa's own large-scale corporations.

24 See the special issue of the IDS Bulletin, vol 29, no 2, 1998, in critical assessment of the World Development Report for 1997 and also Hildyard (1998).

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Appendix

The first version of this paper was drafted before having a chance to consult Webster and Adler (1999), a version of which was presented at the Perth conference. It seems appropriate to offer a commentary in light of considerable differences with my own general approach as well as interpretation of contemporary developments in South Africa. One third of their paper is devoted to a general discussion of "bargained liberalisation" as a desirable form of class compromise. This is discussed first. It is followed by a critique of their assessment that a stalemate has prevailed in South Africa over the past decade, but with improving prospects for a more favourable outcome.

At one level, it is more or less impossible to depart from their general conclusions. It is better to reach a positive-sum outcome through (class) compromise than a negative-sum outcome through conflict. By this means, only two marginalised extremes, in principle and practice, offer themselves as alternatives on the right or left depending, respectively, on whether you favour outright victory for capital and labour. Once posed, thus, in the stark, static terms of the simplest game theory, without reference to time or place, it becomes a matter of filling in the dynamic and the detail of case studies from the past or from contemporary capitalism. But it is crucial to recognise that the interpretative framework has already been set in place – success through class compromise or failure through the extremism of right or left, of capital or labour.

Although the problem is initially posed in class terms, the analytical content of the general framework proceeds otherwise, at least by one step removed. Thus is posed an "estrangement between the economy and society", p. 348, a "balance between the market and society", p. 349, the "terms on which a country engages with the global economy", p. 348, and there is an air of analytical opposition between market (equals globalisation and liberalisation) versus the state (a filter for domestic interests and compromise). These structural oppositions are complemented by processes, which are equally aloof from social and historical specificity and straddle class divisions, although the language of, and application to capitalism are immanent. Thus, there is the double transition itself, comprising democratisation and economic restructuring, liberalisation, globalisation and increasing flexibility.

Now, with the notable absence of good governance and community development, these are precisely the terms under which both Washington and post-Washington consensus. Have comprehended development over the last twenty years. Each of these concepts has been subject to extensive critical unpacking, whether for their self-serving construction in general or their departure from class analysis in particular. In this light, W&A provide an exemplary illustration of the shifting nature of scholarship on South Africa, from focus on notions of race and class rooted in the realities of apartheid to the bland generalities of modernisation and its progeny.

Nonetheless, out of the vision that these concepts allow, W&A do descend one step closer to home by applying them to post-war developments, both in the developed North and the developing South. For the North and its post-war boom, there is reliance upon one model fits all with minor modifications. A compromise must have been struck between capital and labour for if one, capital, is too powerful, economic and social reproduction is dysfunctional and, if it is the other, then profitability and accumulation are stymied.

There are very serious problems with this account. First, it is not well-grounded theoretically, relying exclusively on distributional arguments, albeit ones that are extended to welfare and other elements of economic and social reproduction. Essentially, no account is taken of the productivity increases that accompany accumulation and which can allow rises in profits and wages. The issue is why does this dynamic process break down - the answer cannot be found in the limited terms covered by W&A.

Second, if there is one outstanding aspect of Brenner's (1998) account of the contemporary malaise of world capitalism, it is to demonstrate that distributional arguments around the power of labour are inconsistent with the evidence. Rather, as critics of Brenner have argued, rather than Brenner himself, it is necessary to examine the restructuring of capital in both its national and international dimensions, and in markets, finance and production and not just or primarily in distributional (and demand) terms.[25]

Third, W&A do make some concessions to diversity of experience for the North by reference to Esping-Andersen's theory of welfare regimes and also by reference to the work of Richard Freeman. As I have shown in detail elsewhere in drawing upon a wide-ranging survey of the literature, and despite its popularity, [26] Esping-Andersen's approach is marked by considerable theoretical and empirical weaknesses. Theoretically, Esping-Andersen draws upon a correspondence between underlying structures and welfare outcomes in terms of archetypal regimes, a more sophisticated version of, but departure from, the class-based approach that preceded it as welfare is perceived as functional and legitimising for capital but also a drain upon it, Gough (????) for example. Empirically, the three welfare regimes he identifies have increasingly been shown to be unable to accommodate diversity within and across countries in welfare programmes. Further , Esping-Andersen has himself moved towards understanding welfare provision in more orthodox terms, such as "risk management", rather than as a form of integrating economic and social reproduction under capitalism. Significantly, W&A refer positively to Richard Freeman, a mainstream labour economist who has deployed corresponding models of welfare systems.[27] In short, W&A have trailed a literature that has shifted away from the political economy of the welfare state towards the management of welfare subject to constraints (global or otherwise).

Fourth, as with the welfare state, the idea of globalisation has come to the fore. While it is inevitably qualified in the literature by local discretion, yielding the notion of glocalisation or the like, the economic analysis is flawed for the international as for the domestic economy from which it has been simply transposed. Globalisation is perceived as a competitive constraint on all economies as the mobility of capital drives each down to lower standards of wages and welfare. But there is one simply conundrum – if wages etc are being driven down, who is benefiting, especially as productivity is also increasing driving down prices and raising incomes? There is a fallacy of composition here. It could be resolved by appeal to the notion of globally deficient effective demand. This would then require a very careful analysis of gainers and losers, and how these cut across the various sectors and interests of the economy and welfare. Such finesse is notably absent from the grand overview of W&A and, it should be added, of their application of it to South Africa.

Fifth, there is a presumption that, whatever the exaggerated claims for globalisation, it takes its most severe form in finance, p. 350. This is, however to misunderstand the nature of finance itself (which is structured both nationally and internationally), and of financial systems and their international differences. The significance of national control and regulation, and how industry, finance and government are integrated remains and even increases with internationalisation of finance.[28]

Finally, W&A present their account as running against an analytical and ideological tide in which "the idea of class compromise – indeed, of the very notion of societal bargaining – has fallen into some disfavor", p. 351. This is to mistake the intellectual and political climate at the end of the millennium. It has already turned against neo-liberalism, more in principle than in practice, but is seeking an accommodation with it. The question is with what will neo-liberalism be replaced. It is certainly not an antipathy to compromise, as most noticeable in the emergence of Third Way, for which the notion of class is the victim. Only in this sense do W&A swim against the current. Otherwise, both terminologically and analytically, they conform entirely to an emerging orthodoxy which fundamentally accepts the propositions of neo-liberalism as half-truths that need to be tempered by recognition of market and non-market imperfections and humane values.

W&A's treatment of the "Southern compromise" is no less ambitious in its generalisations. Essentially nothing is added analytically to the "parallel" account offered for the North other than a more complex underlying class structure and an additional hurdle of democratisation to negotiate. Significantly, the only illustration offered in any detail draws upon Heller's work for Kerala. Only reference is made to Heller (1995), no doubt prompted by its apparently supportive title. There is, however, an alternative interpretation of Heller's work, one that emphasises how working class conflict won victories for labour and welfare although compromise was ultimately reluctantly embraced. This was not due to globalisation but because of the political imperatives of an unsympathetic central government. In short, the division between positive-sum compromise and negative-sum conflict is at best an extremely blunt and self-serving instrument in disentangling the dynamic of economic and social development.[29]

Nevertheless, against this broad background, W&A locate recent developments across South Africa's double transition, suggesting that failure to deliver more progress on the economic and social fronts derives from a stalemate between capital and labour that dates at least from the late 1980s. Further, W&A are in part optimistic about the prospects for a bargained liberalization in view of achievements across the six pre-conditions they identify, p. 375. Of these, three are perceived to be satisfied: government and labour are facing increasing stalemate in view of labour resistance; institutions exist to forge bargain; and "surprisingly", the international context is more conducive in wake of the post-Washington consensus with explicit reference to Stiglitz. As the three other conditions are not yet considered to have been met, suffice it not to discuss them other than to note that W&A are unduly optimistic over them: the parties have to recognise that compromise is better than stalemate, opposition within parties be contained, and innovative strategies be adopted.

Otherwise, for the international context, those that had high hopes have already had them rudely shattered with the (forced) resignations of Stiglitz and Kanbur.[30] These were in part deemed to be a consequence of interference of US Treasury Secretary, Larry Summers, previously notorious as Stiglitz's predecessor for having advised that developing it would make sound economic sense for developing countries to serve as dumping grounds for developed's toxic waste. In particular, he is reputed to have redrafted sections of Kanbur's report dealing critically with the impact of globalisation.

Whilst the institutions that have been put in place since 1994 are consistent with bargained liberalisation, they also conform to repressive tolerance, incorporation or whatever. Institutions and legislation as such tell us very little. What seems indisputable is the period has witnessed considerable weakening of labour market conditions, capacity and influence, not least in loss of leading personnel to government and the private sector, job losses and the politics of the Triple Alliance. Nor is there any evidence of increasing recognition by stalemate by big business. Its economic policies have essentially been adopted.

Rather than address the foregoing in detail, it is appropriate to offer an alternative interpretation of events, even within the W&A framework. On the one hand, the stalemate that they seek is surely to be found in the 1980s - a period of zero net investment, mounting national and international opposition to apartheid, international debt freeze in 1985 following mismanagement of the economy with financial liberalisation in the 1980s just as the gold price began to fall from its peak (and similarly for energy prices), an end of the public sector led investment of the 1970s that even the World Bank confessed had crowded in private investment, and so on. In this light, the early 1990s was the most favourable time at which to bargain a settlement and, indeed, one was reached almost entirely favourable to capital to put it crudely. Subsequent developments have reflected that settlement and built upon it rather than witnessing progress towards reconciling political with economic restructuring. This is all reflected in the early intervention by large-scale capital in the 1980s to reach a rapprochement with the ANC and the decline of the MDM around and through the form taken by the negotiation of the constitutional settlement.

It would take too long and is unnecessary to go over the evidence presented by W&A to support this alternative view. Readers can form their own judgements. There are, however, significant errors and omissions that I feel particularly well-placed to correct. Whilst often only of minor detail in the bigger picture, they are symbolic of an alternative reading of recent developments.

First, MERG is described as having been established by progressive academic economists. This is not quite right. It arose out of the mission recommendations of the Canadian development agency, IDRC. The aim was to strengthen policy research capacity amongst black economists not, in and of itself, to develop policy alternatives. MERG was, however, asked in early 1993 - from the highest levels - to prepare an alternative framework in light of dissatisfaction with the increasingly aggressive policy initiatives and activities of both big business and the World Bank and IMF. I remember being against meeting this request for, not for the first time, it would have meant sacrificing creation of long-term capacity for short-term gain in policy proposals.

Nonetheless, the work went ahead but W&A are wrong to claim that the ANC's Department of Economic Policy, of which I was a member, initiated MERG or this particular task. Indeed, it opposed and impeded the latter, whether for reasons of institutional, political or personal rivalry. Trevor Manuel was head of DEP and Tito Mboweni his deputy. At discussion of the penultimate draft, Manuel unsuccessfully insisted that the independence of the Reserve Bank not be discussed let alone opposed. He has become Minister of Finance and Mboweni ultimately became Minister of Labour before succeeding to Governor of the Reserve Bank. It is true that MERG document was dropped[31] - again from the highest levels - a sharp shift in the leadership over the middle years of 1993, culminating in the constitutional guarantee of Reserve Bank independence and the secretive taking of the $850 million loan from the IMF. Nor is it the case that the RDP and MERG (Report) personnel overlapped. The RDP was the first economic policy document in which I, for one, did not participate. In addition, the RDP was notable for beginning to abandon the widespread, participatory discussion of such documents through the MDM.

Second, much is made by W&A of the labour legislation, the job summit and the Labour Market Commission. Having served as an advisor to the latter, I take a different view, more along the lines of rhetoric. The job summit was a late in the day proposal from the Commission aware that it had been convened for over a year without having any concrete proposals to put forward for job-creating policies with any substance. Similarly the mining summit is confessed by W&A on being about how to make orderly closure and job losses (and to my knowledge, no proper and full social cost-benefit has been made of such closures).[32] Meanwhile, formal job losses continue despite considerable labour market flexibility as documented by the companion research report to that of the Labour Market Commission, ILO (????), and W&A's opinion to the contrary, p. 349.[33]

Third, W&A put forward three arguments for the shift in ANC economic policy at the decisive moment in 1993 - the collapse of the Soviet Union ("the most important factor"), pressure from international actors, and lack of progressive economists. No doubt, all of these played a part but none is decisive. The collapse of the Soviet Union was too far away in time and place. Pressure from international actors had been resisted (why otherwise sign an unnecessary deal in secret?) as had the arguments of right-wing economists.[34] It is inescapable that the shift was made out of choice, not least to smooth the way for the constitutional settlement, and not because of these factors, consistent with though they are.

In this light, what is notably absent from W&A's account for South Africa is the role of capital. This is true of lack of attention to its structures (domestic, international, sectors), its interests (industrial and trade policy quite apart from macro and labour markets) as well as its activities (globalisation, especially net outflow of investment). Indeed, the narrative from 1994 onwards centres almost exclusively on the relations between the state and labour, possibly an unintended acknowledgement that capital has been pretty well satisfied. No explanation, for example, is offered for the WTO offer on tariff reduction that exceeded what was required (essentially because large-scale capital has little interest in promotion of production for the domestic market of the commodities involved). Most important, as recognised in the MERG document, macro and other policies are severely constrained and even counterproductive unless substantial use is made of domestic financial resources for reconstruction and development, with commitment to building the institutional capacity to deliver rather than relying upon the benevolence of the market, supplemented by subsidy.

Omission of such considerations is indicative of a more deeply rooted problem. The limited treatment of capital not only renders it too homogeneous and too simply partitioned into global and domestic - the vast majority of South African capital is both. It also sets aside an inescapable facet of the double transition that is totally overlooked by W&A in their framework of bargained liberalisation between given, if diverse, parties in the context of the South. This is the process of creating and restructuring classes themselves. The class structure does not remain static, and Pilger's crude if symptomatic polemics aside, p. 347, a black bourgeoisie, big and small, is in the process of formation whilst longstanding, large-scale conglomerate capital is busily internationalising in diverse ways. If any bargained liberalisation is going on, these are the parties doing it with labour and other interests increasingly sidelined.[35]

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[25] Brenner confines himself to competition between three nations, Japan, Germany and the United States, and ultimately deploys an explanation based on the depressing effect of large-scale incumbents upon investment. For wide-ranging criticism, see Historical Materialism, nos 4-6.

[26] See Fine (2000??) drawing upon Fine (1999?? and 2000??).

[27] The same is true of Rodrik to whom W&A refer favourably. But the leading and most progressive economist in this vein is Tony Atkinson. He is able to put forward the virtues of bargained compromises, at least as strong as any proposed by W&A, in opposition to the transatlantic consensus (inequality is inevitable), without need to refer to class (individuals are his analytical starting point),

and with ultimate reliance upon the economic and social analysis that flows from market imperfections, Atkinson (????).

[28] For a case study in case of the stock exchange in Germany, see Lütz (????). More generally, see Fine (1999?? and 2000??).

[2929] Another affinity with orthodoxy, other than the residual hold on class, is with the work of the conservative economic historian Douglass North who emphasises institutions as more or less efficient to the extent that they can overcome the extreme interests of those with power. See Fine and Milonakis (2000).

[30] See footnote 16? It was possible not to be so upbeat about the World Bank's new image, even at an early stage, see Fine (2000??) for example.

[31] MERG itself did not "disappear" as reported but was transformed into the National Institute for Economic Policy, NIEP.

[32] Along the lines of those conducted and won by the British NUM before an independent tribunal only to be ignored, Fine (1990).

[33] Guy Standing organised the research and was co-author with my colleagues John Sender and John Weeks. Paradoxically, Standing's work is referenced by W&A in earlier discussion of labour market flexibility as underpinning the need for compromise across North and South. Yet South Africa has presumably managed to escape its influence.

[34] It only takes one economist to convince a politician and one a day for almost a year is not enough if the politician is unwilling. Twenty years ago, 364 academic UK economists signed a letter to the Times arguing that Mrs Thatcher's policies had no theoretical or empirical foundation. It probably had the reverse of the intended effect, if any. Further, whatever the capacity and weight of progressive economists, they were influenced by the loyalty commanded and demanded by the ANC, quite apart from their movement into consultancy culture and government posts. For some, this evolution has not been so dissimilar from those economists attached, for example to the World Bank and the like, that had been opposed in the past but who gained considerable influence and government posts before moving to or straddling the private sector.

[35] A significant omission in W&A's account is any mention of land reform and agriculture - especially in the context of the South and recent developments in Zimbabwe. How many white farms have been taken over in South Africa, even with compensation? Is it too cynical to suggest the lack of prominence of such issues reflects a lack of interest on the part of aspiring capitalists?