

# The Developmental State, Social Policy and Social Compacts: A comparative policy analysis of the South African case.

A thesis Submitted in Fulfilment of the Requirements for the

**MASTER OF COMMERCE (ECONOMICS)**

By

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## DECLARATION

*Except where explicitly stated otherwise and acknowledged, “The Developmental State, Social Policy and Social Compacts: A comparative policy analysis of the South African case”, is wholly my own work and has not been submitted to any other University, Technikon or College for degree purposes. All sources I have used or quoted have been indicated and acknowledged by means of complete references.*

Signed:

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Date:

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<sup>1</sup> The views expressed in this thesis are my views and are not in any form constituting the views of the Institute of Social and Economic Research (ISER at Rhodes University).

## DEDICATION

*I would like to dedicate this thesis to my late mother – Dudzai Mugabe. Your early motherly love has shaped who I am now and I am grateful for the days you spent with me before you departed and may you continue to rest in peace.*

## ABSTRACT

The history of economic thought is ‘flooded’ with neo-classical accounts despite the fact that neoclassical economics did not occupy history alone. This has caused the discourses on ‘lost alternatives’ to be relegated as the deterministic ‘straight line’ neo-classical historical discourses are elevated. Globally hegemonic neo-classical discourse aided this phenomenon as it served to subordinate any counterhegemonic local discursive processes towards alternatives. This study is premised on the theme of non-neoclassical ‘lost alternatives’ using the post-apartheid South Africa as a case study. Emerging from the apartheid regime, the impetus towards non-neoclassical redistributive policies was strong in South Africa but this did not gain traction as the ANC’s ‘growth through redistribution’ was replaced by globally hegemonic discourse which favoured ‘redistribution through growth’.

This thesis postulates the idea of two waves of ‘internal’ discursive formations; capturing the transition to democracy up to 1996 as the first wave and the period from 2005 to about 2009 as the second wave. The developmental state paradigm (DSP) emerged as the central heterodox paradigm with ideas such as industrial policy, welfare, and social dialogue/compacts being main elements. The DSP was expressly chosen in the early 1990s, the first period of strong internal discursive formation, but faded as neo-classical policies, epitomised through GEAR, dominated the policy space. The DSP discourse gained vitality in the second wave of internal discursive formation (2005-2009) and it was associated with the subsequent Zuma’s administration. The study illustrates that the DSP has failed to be fully developed into a practical framework but remained only at rhetorical level with the phrase ‘developmental state’ inserted into government policy documents and documents of ANC as a ruling party. The thesis further illustrates that the DSP fared well ideologically because of its inclination to the ideology of ‘developmentalism’ tended to trump any socialist inclined policies such as a generous welfare regime. The thesis rebuts the notion of the DSP in South Africa which has only been amorphously developed with the phrase ‘developmental state’ becoming a mere buzzword. The thesis argues that the DSP in the 21<sup>st</sup> century is much more complex and the growing ‘tertiarisation’ of the economy makes the Social Democratic Paradigm SDP’s capability centric approach much more relevant for South Africa. The study goes further to argue that a (SDP) is much more suitable alternative for addressing South African colonial/apartheid legacies and consolidation of democracy.

## ACRONYMS AND ABBREVIATIONS

AIM	Academic-Institutional Media complexes
ANC	African National Congress
ASGISA	Accelerated and Shared Growth Initiative for South Africa.
BEE	Black Economic Empowerment
CMEs	Coordinated Market Economies
COSATU	Congress of South African Trade Union
DSP	Developmental State Paradigm
DS	Developmental State
EDD	Economic Development Department
EPB	Economic Planning Board (South Korea)
GDP	Gross Domestic Product
GEAR	Growth Employment and Redistribution
IFIs	International Financial Institutions
IMF	International Monetary Fund
IPAP	Industrial Policy Action Plan
LMEs	Liberal Market Economies
MEC	Minerals-Energy Complex
MDGs	Millennium Development Goals
MITI	Ministry of International Trade and Industry (Japan)
MOF	Ministry of Finance
NDP	National Development Plan (South Africa)
NEDLAC	National Economic Development and Labour Council
NGP	New Growth Path (South Africa)

NICs	Newly Industrialised Countries
NIPF	National Industrial Policy Framework
NPC	National Planning Commission (South Africa)
RDP	Reconstruction and Development Program (South Africa)
SACP	South African Communist Party
SAPs	Structural Adjustment Program
SDP	Social Democratic Paradigm
SD	Social Democracy
SOE	State-Owned Enterprise
US	United States
VoC	Varieties of Capitalism
WTO	World Trade Organization
WWI	The First World War
WWII	The Second World War

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## CHAPTER 1 INTRODUCTION

### 1.1 On the phenomenon of historical and current ‘lost alternatives’

The theme of ‘lost alternatives’ has received scant attention in conventional socio-economic historiography. Once one discourse of what ‘really happened’ in the past becomes dominant, it obscures other accounts on what was possible and it becomes difficult for less dominant, albeit equally important accounts, to be considered. As a result of this, two main problems arise; the first is that the public domain becomes awash with biased accounts of what happened in the past and secondly, real possible ‘lost alternatives’ in the past are side-lined because the hegemonic narratives only legitimise the story of ‘winners’. Nowhere is this approach of ‘a winner takes all’ account of history starker than in the historiography of the Soviet Union as Cohen (2009) argued:

During the forty-year Cold War, when the academic field was formed, they saw a “straight-line” history predetermined by one or more ineluctable factors—the ruling Party’s organization, its ideology, or Russia’s bleak traditions. But history written without defeated alternatives is neither a full account of the past nor a real explanation of what happened. It is only the story of the winners made to seem inevitable (Cohen, 2009: xi).

The ‘irreformability’ of communism and of the Soviet Union in particular has become an ‘accepted truth’ (Cohen, 2009). This ‘straight-line’ approach to history has blinded many scholars of Soviet history and those focusing on other important world historical accounts, of the availability of real alternative ‘roads’ not taken in history. As a result of this lack of open-mindedness towards the Soviet history, the real reforms pursued by some of the Soviet leaders, such as Bukharin, Khrushchev and Gorbachev are nullified. In the cover interview for his book *‘The Soviet Fates and Lost alternatives: From Stalinism to the New Cold War’*, Cohen aptly argued that:

You often hear, for example, that the Soviet Union “collapsed.” But in reality the Soviet Union did not collapse! It was abolished. But once you say it “collapsed,” you have answered the question of what happened at this historic turning point. Wrongly. And you then draw wrong conclusions for today. If the question is wrong, then the answer is wrong. The questions asked define the answers governments and people live by (Cohen, 2009).

The reference to the Soviet history has been a dominant practice across many fields such as economics, history and social sciences to name but a few. This is because history has significant political, economic and social effects influencing decisions made by policymakers as they

continuously infer lessons from the past – fearing the old saying that ‘those who cannot remember the past are condemned to repeat it’. In the modern era, the Soviet ‘collapse’ continues to be evoked in relation to modern policymaking and the phrase “the collapse of the Soviet Union” continues to be used infinitely, even subliminally, when authors try to dismiss certain policy propositions. The consensus on the ‘collapse’ of the Soviet Union emerged and was strongly propagated by what Cohen (2009) described as the US triumphalism in the Cold war against the USSR and the Vietnam fiasco also attest to such Washington triumphalism against communism.

What is crucial in the *Soviet Fates* story is that it serves to show how conventional historiography obscures the important issue, the basis of this study on the South African case – the issue of ‘alternatives’. This helped to legitimise the ‘straight-line’ approach to history taken by leading formative hegemonic institutions. Locke partly explained one of the reasons why a ‘straight line’ of history is often told when he argued:

Neoliberal economists are dimly aware of the fact that fascist and Nazi economics were centrally-planned but not socialist, but they tend to dismiss these economic systems because of the attendant political horrors and have made precious little effort to develop rigorous theoretical accounts of how they worked (Locke, 2005: 1).

Locke’s argument is also relevant for Soviet history because the political culture of the Soviet Union did not entail that it was faring badly on the economic and technological front (Heilbroner, 1990). Terreblanche (2012) argued that the unfortunate Chernobyl disaster also meant an unjustified refutation of the whole Soviet system. Gorbachev’s call for full scale Soviet reform, such as gradual democratization<sup>2</sup>, was supported by the general public in the Soviet Union but his policies were portrayed by his critics to have failed miserably. Cohen (2009) argues that besides being a personal attack on Gorbachev, critical was the Yeltsin’s complicit coup. Yeltsin and the elites around him considered the breakup of USSR as their way to power and opportunity for amassing riches for themselves (Cohen, 2009)<sup>3</sup>.

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<sup>2</sup> This was in the form of Perestroika and Glasnost. Perestroika refers to the policy of economic and social restructuring done from above with support and initiatives from below. Glasnost also refers to the Gorbachev’s call for transparency and openness within state institution, a practice which never occurred under orthodox Stalinism (Cohen, 2009).

<sup>3</sup> As Cohen (2009) argued, the Soviet Union was ‘reformable’ but the internal reform process was problematic because of the speed with which Gorbachev pushed the reforms instead of taking a gradual approach. Cohen also highlighted the importance of the old communist elites who were adamant about the need for reforms thus making Gorbachev’s efforts unyielding.

Many decisions on the policy front during crucial turning points such as transition to democracy by colonised countries were also premised on the ‘collapse’ of the Soviet Union. Moreover, explanations of why certain ‘roads’ were not taken and some taken often echoes the ‘no alternative’ story of Margaret Thatcher and that of the *Soviet fates* (Van Niekerk, 2013). This shows how difficult it is to go against dominant globally hegemonic discourses which often trump the development of locally developed alternative discourses in developing countries. It is also difficult for anyone to suggest that history is full of ‘lost alternatives’ because it is easily dismissed as only a fantasy or hypothetical construct of ‘what ifs’. As a result, the peripheries remain, by default, net ‘consumers’ of globally crafted hegemonic discourses. As a result of this, their alternative initiatives occupy a subaltern and subordinate position – a different form of colonization. This kind of colonization implies “the imposition of ideas and discourses of a hegemonic geographic bloc over the counterhegemonic narratives of the peoples of the peripheries” (Peet, 2002: 61).

Building on the above notion of globally hegemonic discourses, Peet (2002) argues that:

In general, discourses are lent hegemonic depth by the cultural-institutional-geographical contexts of their production, revealed in the reputations of key formative institutions such as Harvard, Oxford, and Cambridge Universities. The boundaries of geographic blocs are extended and reinforced through formal, institutional mechanisms: political/military interventions enforce adherence at times of crisis, when competing interpretive schemas collide in geopolitical space; blocs are more usually policed by policy means, as when structural adjustment by the World Bank forces borrowing countries to adopt hegemonic models of development (Peet, 2002: 58).

Peet (2002) illustrates that globally hegemonic discursive formations trump and colonise any alternative counterhegemonic discourses emanating from the peripheries. This is done through Academic-Institutional-Media (AIM) complexes which play an important role in producing “...policy prescriptions, position papers, press releases, popular columns, commentaries and programs, news bites, expert interviews and a vast of panoply of well-written, illustrated books, reports, and articles<sup>4</sup>” (Peet, 2002: 58). Moreover, key intellectuals within the counterhegemonic

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<sup>4</sup> These complexes include formative academic institutions such as Harvard and Cambridge from which hegemonic theorization develops; financial institutions such as the IMF and the World Bank which, through their financial muscles, are capable for pushing through certain agendas through loan ‘conditionalities’ to the peripheries; and key leading media outlets locally and internationally also help entrench the globally hegemonic discourses by constant positive coverage of the hegemonic discourses while portraying a negative picture of any counterhegemonic discourses (Peet, 2002). The recent coverage of strikes in South Africa is a good example as it conspicuously served to portray that unionism is bad and employers are always right.

groups are often “captured by grants, institutional recognition, ‘policy relevance’ and invitations to visit Harvard for a corrupting while” (Peet, 2002: 61).

In face of such a rivalry between the globally hegemonic discourses and the local counterhegemonic discourses, the counterhegemonic groups often lack sufficient funding and reputational legitimacy thus it becomes easy for their local intellectual elites to be co-opted.

## **1.2 South Africa and its ‘lost alternatives’**

The Soviet ‘collapse’ is ideologically and metaphorically important. It influenced the ideological orientation of the South African transition to democracy especially with regard to state planning. Slovo (1989) remained adamant that the perversion of socialism under Stalin and Ceausescu has been allowed, unjustifiably, to pour cold water on the possibility of a socialist route in South Africa. Metaphorically, it also informed how South Africans understood the demise of apartheid with the tendency to argue that it simply ‘collapsed’ (Lipton, 2007). Apartheid, argues Lipton (2007:81-107), did not simply collapse politically and economically but was negotiated by President De Klerk (see also Southall, 1980). Again, just like the Soviet case, once historians or commentators say apartheid collapsed, it obscures various roles played by the NP government, progressive movements such as the ANC, unions and the role of businesses. Historians thus shape what the public embrace to be true about the past and thus shaping the future as well. Lipton (2007) argued:

The debate is also about historiography – the role of historians in shaping perceptions about South Africa’s past. Historians have a tendency of ignoring or dismissing evidence that does not support or even contradict their hypothesis. If history matters, is historical truth possible given the past cannot be tested in a lab? There is no criteria of determining whether A’s account is closer to the truth than B’s account (Lipton, 2007: 4).

This self-serving account of history by side-lining other accounts serves to eclipse all counterhegemonic accounts on history. In South Africa, in particular, this modern understanding of what happened in the past is understood through the hegemonic discourse which continues the ‘straight-line’ approach to history.

In this study, alternative approaches to economic growth and national prosperity will be interrogated based on many competing ideas of how to attain a ‘good society’. With the advent of the transition to democracy at least from 1985, various ideas of how the economy should progress were in a continuous rivalry. Being the era of IMF and the World Bank’s Structural Adjustment Programs

(SAPs) in most developing countries, the South African alternatives from counterhegemonic groups, such as ANC's 'growth through redistribution', lost the battle.

In South Africa, what Peet (2002) called the 'Davos culture' is very indicative of the relegation of local initiatives on policymaking as the hegemonic discourse took over. Peet (2002: 79) concludes that "What terror on Robben Island could not do to Mandela, the Davos culture could." This was exemplified by the fact that Mandela was pro-nationalization soon after his release from prison but he gradually gave in to the globally hegemonic discourse which also constantly evoked the 'collapse' of the Soviet Union and strengthened the 'no alternative' discourse. A more subtle observation was made by Gelb (2010), which cannot be separated from the forces of the AIM complexes, when he argued that:

In South Africa it is not clear that we have abandoned what was in some sense the core feature of our macroeconomic policy over the past decade and half, the implicit assumption that if we got high marks on financial investors' good behaviour chart, we would be rewarded with high economic growth *through the influx of FDI into the country* (Gelb, 2010: 58 *my emphasis*)<sup>5</sup>.

What Gelb refers to as the 'core feature of macroeconomic policy' describes the transition of South Africa into democracy. This was a period in which the first real 'window of opportunity' was available but policymakers could not 'break the mould' but instead succumbed to the call for investor-friendly practices. The impetus towards 'growth through redistribution' thus could not get traction in face of the emphasis of the need for FDI (Nattrass, 1994). Politically, this opportunity for a broader compromise was also squandered and the result was an elite transition which enriched a few previously disadvantaged and politically connected individuals (Bond, 2000; Terreblanche, 2012).

After the first decade of democratic dispensation, there was growing disillusionment with the adopted 'redistribution through growth'. The broad discontent with the economic trajectory led to the idea of state intervention in economic development in South Africa. The focus was increasingly on the nature of state, as the principle change agent, which could address the imperatives of both economic development and social transformation. The period after 2004 saw the increasing relevance of the question of 'alternatives' and in 2005, the issues around a 'developmental state'

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<sup>5</sup> Mohamed (2007) also argued that South African policymakers were restrained from 'upsetting the markets' by key international players.

started to emerge again from the ANC (ANC, 2005). The Accelerated and Shared Growth Initiative for South Africa (ASGISA) in 2006 was thus a clear manifestation of this. Politically, this period was characterised by growing disenchantment against Mbeki's political style – especially after he fired Zuma as vice president in 2005 (Plaut and Holden, 2012).

This domestic discontentment with the economic trajectory and political style of the Mbeki regime was worsened by global events such as the 2008 financial crisis. The question of alternatives became even starker as government's regulative logic was made clear by the failure of the financial markets. Internationally, the crisis evoked old debates, such as those emanating from Keynes and Polanyi which the globally hegemonic discourse had side-lined – the necessity of regulation and the role of the state.

The crisis in South Africa coincided with a political period in which many were questioning the liberal market system because of its failure not only to stimulate rapid growth, but its continuing failure to redress apartheid legacies of poverty and inequality (Gumede, 2013). This thesis argues that it is difficult to understand why the 'developmental state' would be ideal for dealing with apartheid legacies better than the social democracy whose values the ANC continuously pay homage to. This also serves to show the incoherence in South African policymaking reflected by abrupt mushrooming of 'new' policy ideas – many of which hardly get to be implemented. Since 1994, RDP, GEAR, ASGISA, NGP and recently the National Development Plan (NDP) have all been enthusiastically proposed without a clear indication that subsequent frameworks were building upon earlier frameworks.

On the one hand, the call for a 'developmental state' seemed to be a reaction to genuine need for economic growth and development; on the other hand, it seemed to be a reaction to a political need to allow Zuma and the ANC to have a 'vision' to stand for – a vision which at least differed from Mbeki's contested market based approach. As a result, it is not clear at all whether the economic and social policy framework adopted is truly based on the East Asian developmental state paradigm (DSP) or represents continuity with the liberal economic system. For instance the ANC argued:

The ANC therefore seeks to build democracy with social content informed by our own concrete conditions and experiences and this will, in some respects, reflect elements of the best traditions of social democracy (ANC, 2012:16).



While it is clear, from this, that there has been a tentative move away from the liberal market economic system, the exact nature of what is envisioned by the ANC through its desire to build a ‘developmental state’ is not clear. The social democratic system evoked in fact has less in common with their proposed ‘developmental state’. This thesis will argue that social democracy was a viable ‘path not taken’ in 1994. In the new period of ideological openness epitomised by the 2008 crisis, it is not even being considered as an option and is evidently subsumed by the vague ‘developmentalism’ concept in the discourse of a ‘developmental state’. A worrying development at the same time is the hatred which has been directed towards the ‘welfare state’ and this partly explains the recent elevation of the ‘developmental state’. The ANC for instance in their Polokwane resolutions argued that:

We are building a developmental state and not a welfare state given that in welfare state, dependency is profound (ANC, 2007).

It is difficult to understand how the ‘developmental state’ will achieve the proposed ‘democracy with social content’ in a better and quicker way than the rejected ‘welfare state’. This seems to be privileging the economic realm over the social realm and also signalling a move towards a state centric ‘trickle down’ economics. The risk of the proposal of the developmental state in South Africa is that it may serve to reinforce a ‘statist’<sup>6</sup> approach or even authoritarianism with the justification that most of the Asian developmental states were authoritarian during their high growth phases<sup>7</sup>. Politically, the Polokwane resolutions seemed to signal a shift in policies towards people-centred policies however there are no serious signs showing such a shift in practise. The latest National Development Plan (NDP) adopted by the ruling party at Mangaung in 2012 continues, seemingly, to propose a message of fixing the commanding heights of the economy while giving a ‘box ticking’ impression towards the alternatives proposed within the ANC such as the developmental state.

This study seeks to establish how South African history, from the democratic transition period, cannot be understood through a ‘straight-line’ deterministic account of history. The policy contestations of the post-apartheid will be reviewed through the analysis of policy documents

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<sup>6</sup> ‘Statist’ in this study refers to the assuming of absolute power by the state in an authoritarian style and the use of this term is not in the sense of ‘anti-state’ but only refutes the concentration of power in the state which is inimical to the consolidation of democracy and development of social dialogue.

<sup>7</sup> Khan (2013:577) observed that for South Africa there is evidence for “...an incipient authoritarianism evidenced in police remilitarization and the official ‘shoot to- kill’ directive/command, mass media suppression, victimization of the poor, criminalization of squatting and the squatter in urban areas, evictions without court orders, and the manipulation of and naked interference in judicial processes and personnel.”

emanating from the government and ANC as a ruling party. The competing notions of ideal post-apartheid economic and social trajectory will also be analysed with the aim of establishing why certain ‘roads’ were taken and others not taken. In addition to using South African policy documents, the study will use the available literature on various alternative varieties of economic growth paths through the lens of the varieties of capitalism (VoC) approach. Since it is not a study of the varieties of capitalism per se, reflections on different state interventionist models will be done with the main emphasis on the developmental state and social democracy as viable alternatives for South Africa. The study thus takes the form of an extended literature survey with the aim of reinterpreting the existing literature and in so doing contributing to the existing debate on the theme of ‘developmental state’ in South Africa.

The aim of the study is not to conduct an explicit comparative study but to reflect on comparative experiences of other countries with the use of iconic countries such as Eastern Asian *tigers* (widely associated with the ‘developmental state’ model), Scandinavian social democratic countries (mainly Sweden) and other liberal market economies such as Ireland and the United States. The reflections on comparative experiences of these countries seek to illuminate the applicability of alternatives available for South Africa since theory is often a distillation of experiences of other iconic country examples.

### **1.3 The Main Hypothesis of the Study**

The main hypothesis running through the study is that in the early 1990s, South Africa had real alternative ‘roads’ for its post-apartheid socio-economic trajectory. These alternatives were visibly the ANC and MERG’s professed ‘developmental state’ route and the ANC’s implicit social democratic system which was not only part of its aspiration in the 1940s but was also epitomised through the compromise attained through the Reconstruction and Development Program (RDP) – which can be termed the ‘social democratic moment’. These alternatives however were ‘lost’ because the ANC and other progressive movement groups lost the policy processes to the globally hegemonic discourses on liberal economic policies.

With the growth of discontentment against slow and inequitable economic growth, from 2005 to 2009, the question of alternatives started to come back into the agenda through proposals such as those emanating from ANC’s call for a ‘developmental state’, the New Growth Path and recently the National Development Plan. The current period (2007-2014), as this study posits, represents another

‘window of opportunity’ for policymakers to embrace alternatives and ‘break the mould’. However, similar to what happened in the 1990s, the current period is becoming another crucial turning point of ‘lost alternatives’ as the old post-apartheid neoclassical growth trajectory reasserts itself. The current NDP which is not in agreement with the NGP and the emphasis on tight money by Gordhan (Medium budget 2013) only represents the continuity of ‘business as usual’ market economy policies.

#### **1.4 The Thesis Outline**

Chapter 2 serves a double task of developing the theoretical basis of the study at the same time reflecting on comparative experiences of the countries from which non-neoliberal alternatives were adopted. The theoretical aspect of the chapter will trace the origin and development of the concepts of developmental state and social democracy as state interventionist alternatives to the liberal market system. Chapter 3 will bring the discussion to South Africa and this chapter will be a background chapter that seeks to lay the foundation of post-apartheid policymaking in South Africa. In brief this chapter will be analysing the first major turning point at which space was available for non-neoclassical development routes to be taken in South Africa.

Chapter 4 is centred on the rise of the second internal discursive process. This chapter establishes the ‘developmental state’ as the winning discourse, over the social democratic discourse, regardless of this victory being at rhetorical and ideological level. Chapter 5 covers the most recent period focusing on the NDP as a vision proposed for the future and how it represents continuity with the previous policy frameworks and fails to be a ‘game’ changing vision. This is because of its focus on relative changes which it proposes should be done, impliedly, without any radical changes to macroeconomic the structure of the economy. The chapter will also argue that the NDP is against any role of the government in the economy and it rather focuses on the capable state – a notion that argues that the state should match its role to its capabilities. Chapter 6 will be the concluding chapter.

## CHAPTER 2 THEORETICAL FRAMEWORK AND COMPARATIVE REFLECTIONS

### 2.1 Introduction

The neo-classical paradigm occupies a place in history and in the present, but it has never occupied history, or the present, alone. There have always been competing discourses. As soon as the need for decomposition of histories of ‘economic thought’ from sole focus on the neo-classical paradigm is acknowledged, the door is open more widely for other discourses to contribute to its meaning (Knowles, 2000: 2).

Knowles illustrates that the neo-classical paradigm is and has been a ‘winning’ paradigm in the historiography of economic thought. Undeniably, this ‘straight line’ historical development of economic thought put governments into a neo-classical straightjacket. As a result, the role of the state in economic development is highly debated and the outcome of such contestation is often won by the hegemonic neo-classical paradigm – often through “a formidable set of potential liars, equipped with money, technical expertise, transnational reach and state power” (Locke, 2005: 1). The debate within the camp of those who argue for state intervention has also been marred with contradictions as to what form of intervention is viable. Wade (2004: 345) argued that the continuous debate on the role of the state illustrates the “power of infinite repetition as an essential tool of modern scholarship”. So despite the consensus emerging, especially after the 2008 financial crisis, that the state indeed has an important role in the economy, there is a variety of these ‘interventions’ which remain contestable.

The developmental state paradigm (DSP) has been at the centre of policy discourses in Africa and in South Africa in particular (Edigheji, 2010; Mkandawire, 2001, 2008 & 2010). For South Africa, the New Growth Path (NGP, 2010) is the policy framework to fully adopt the goal of a DSP in the recent period. This has been an attempt to place the state in the ‘driving seat’ for the economy reminiscent of the 20<sup>th</sup> century Asian developmental state. Unfortunately, the nostalgia for the Asian DSP has not culminated in a concrete direction in developing countries in terms of whether it is the suitable stance in the 21<sup>st</sup> century era. Worryingly for African countries, the DSP discourse’s impetus towards a bigger role of the state raised questions of state capacity due to the general lack of faith in state capacity in developing countries. For instance huge state led projects such as National Health Insurance (NHI) are often believed to depend on the state’s implementation capacity. Equally important is authoritarianism such as the one experienced in Zaire under Mobutu which is also thought to be a possible offshoot of the DSP leaning in most developing countries (Chang, 2008). It

is thus essential to expand the discourse to other non-neoclassical alternatives of state intervention and this study will expand to Social Democratic paradigm (SDP) in which the nature of state intervention is different from the DSP case.

The following section (2.2) will introduce what the state is and the essence of bureaucracy in building a ‘capable state’. This will be followed by section 2.3 which will illustrate the key arguments for state involvement not only for regulation purposes but for progressive purposes in capitalistic systems. In section 2.4, the Developmental State Paradigm is interrogated based on the classic Asian literature and the section will also illustrate the limited understanding that characterise the nostalgia for the DSP in most developing countries. The last section will bring in the discourse of the Social democratic system as a system in which the role of the state is not inimical to democratic consolidation, welfare advancement and equitable economic growth.

## **2.2 The State**

### **2.2.1 What is the state?**

The phrase ‘capable state’ has been common in recent development discourses and the recent South African National Development Plan (NDP) portrays the ‘capable state’ as an essential prerequisite for any development project at national level. This is also closely linked to international discourse emanating from the World Bank and its 2008 Growth Commission’s emphasis on matching state capacity with its function. What constitutes a state is thus a crucial question that informs its capability. While it may be possible to ignore what the state does in its daily functions, it is impossible not to be affected in one way or the other by its actions because state theory also entails theory of society and distribution of power (Miliband, 1969). Interestingly, the inaction of the state may also constitute its policy stance which still will affect its citizenry. Oppenheimer (1927:13) argued that,

Some regard the state as the most beneficent of deities, which men should worship with all their heart and with all their soul, while to others it is the worst of devils, the curse of mankind, and deserves to be sent back to the hell from which it came.

Such a polarised view regarding the role and relevance of the state has also influenced the current unsettled debates on whether to have more or less of the state. Before denying or accepting the state in such a dichotomised way, a more comprehensive definition may help to demystify the vagueness

inherent in the state concept. For a more organizationally oriented definition of the state, it was Miliband (1969: 46) who argued that:

The fact is that the state is not a thing and it does not as such exist and it only stands for a number of institutions which together constitutes its reality and which interact as parts of what may be called the state system. These are the institutions –the government, the administration, the military and police, the judicial branch, sub-central government and parliamentary assemblies –which make up the state and whose interrelationship shapes the form of the state. It is not very surprising that the government and the state often appear as synonymous for it is the government which speaks on state's behalf and the state cannot claim anything because it's only a nebulous entity.

This definition of the state was also complemented by Dunleavy and O'Leary when they argued that functionally, the state may be empirically identified with a range of institutions which are normally not part of the public sphere <sup>8</sup> (Dunleavy and O'Leary, 1987). From both the functional and organisational definitions of the state, it is evident that the state is an indispensable entity in modern society despite debates surrounding its exact form and extent of involvement in the social and economic life of its citizenry. It is important to note that the state system is not a static concept and its structures have evolved over time as various functions have become increasingly complex and often require a greater level of bureaucratic capacity and competence (Dunleavy and O'Leary, 1987).

The political system also has a bearing on how any particular state system relates to the society in which it is situated and furthermore such state-society relations may often reveal whether the state is classified under the variants of democratic or authoritarian systems (Miliband, 1969: 46). In democratic systems, the state is less coercive and policies are formed through democratic processes while in authoritarian systems the state often has absolute power. These are not discrete systems and in many cases there is a continuum across the ideological left to right spectrum. Liberals, such as a Hayek (1944), argue that any form of state intervention in the economy may lead to a 'slippery slope' that ends in extreme authoritarianism. This forms part of the ideological justification of those who favour the free market system and argue for less state intervention for maximising individual freedom. Liberals do not advocate zero state involvement; rather they advocate a *minimalist* state.

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<sup>8</sup> O'Neil (2007: 38) clarified the issue of strong and weak states when he argued that "Strong states are those that are able to fulfil basic tasks such as defending their territory, making and enforcing law, collecting taxes and managing the economy. While weak states on the other hand cannot execute such tasks very well since their rules are haphazardly applied if at all with characteristics such as tax evasion and other forms of noncompliance, armed rivals to the state, organised crimes and rebel movements, lack of legitimacy and poorly institutionalised".

This is also what new institutionalism argues for with its main emphasis on property rights. Przeworski aptly captured the new ‘institutionalist’ approach:

Install independent judiciary, establish clear property rights, create independent central banks, and manna will fall from heaven. In the language of Washington Consensus, this is the “third stage of reforms” (Przeworski, 2004: 2).

Such minimal role of state assumes that a minimal set of institutions is sufficient but this is far from reality in most developing countries which still need to develop their comparative advantages. For instance the natural resource endowment in the most developing world require an active state which will make sure the multinationals in extractive industries will not haemorrhage funds without facilitating local economic development. State bureaucracy and national developmental agency are thus very important in most developing countries.

#### *State bureaucracy*

It was not uncommon among development economists to treat the state as a “black box,” a kind of cure-all for the limitations found in less developed countries’ (LDC) markets (Chibber, 2002: 594).

While the East Asian success in interventionist policies is acknowledged, it is still baffling to account for the failure of these interventionist policies in the rest of developing countries in Africa and elsewhere. This has resulted in various attempts to understand bureaucratic characteristics of the successful Asian countries with the aim of discovering what other less successful developing countries were doing wrong (Chibber, 2002, 2005; Chang, 2008; Mkandawire, 2001).

An effective, merit based, bureaucratic system is undoubtedly critical in shaping state capacity and cohesiveness towards executing its functions. The neoliberal trite solutions to service delivery problems have often eschewed meritocratic bureaucracy logic while quick to argue for installation of good institutions dismissing the relevancy of developmental agency (Chipkin, 2013; Przeworski, 2004). For instance Chipkin (2013: 1) argued that, “The idea that the route to better service delivery in South Africa (or anywhere) is by building bureaucracies seems laughable. Such has been the power of the Thatcherite revolution.” This however is changing since the desire to build ‘capable states’ mean competence issues will be elevated.

In this study, the relevance of state intervention in development is established but successful intervention depends on bureaucratic rationality among other things. Evans (1995) argued that the bureaucracy needs to be autonomous from interests of other stakeholders within the state system and from private interests. This entails that the ability to discipline potential contenders in the policy processes is important as Chibber argued, "... in addition to the ability to discipline *firms*, planners need to also have the capacity to discipline other *state agencies*." (Chibber, 2002: 594). The down side of state bureaucracy, as experienced in many developing countries, is the tendency to degenerate into ill-disciplined self-serving bureaucracy with predatory functionaries and lack of accountability. This lack of 'embeddedness' often leads to paternalistic bureaucratic system which is less concerned about the public democratic institutions and processes (Evans, 1995).

### *The primacy of developmental agency*

A proactive approach to development as done in Asian countries was possible due to the availability of the developmental agency. The functioning of markets, however efficient, partly explains the success of the Asian economies but agency was a critical element in expediting investments especially in areas where private firms were reluctant to invest (Chibber 1999). For Korea, Huang (2002) argued:

EPB's financial control was sweeping. Through its supervision over MOF, the EPB effectively controlled Korea's banking sector and credit allocation decisions as the Bank of Korea Act of 1962 transferred monetary authority to the MOF. This authority encompassed appointment power, the right to 'reconsider' the resolutions adopted by the Monetary Board and foreign exchange allocation (Huang, 2002: 553).

As the Korean case with its Economic Planning Board (EPB) illustrates, the concentration of financing, planning, trade policy resulted in high level of policy integration and bureaucratic cohesiveness (Huang, 2002; Chibber 2002). Chibber (2002:964) comparing the Indian Planning commission (PC) and the Korean EPB argued that the former lacked legitimate authority to command compliance because it was "...grafted onto the existing policy apparatus as an advisory body, with no real powers over any other ministries." This is in direct contrast to the EPB which was regarded as the "super-ministry" making the Korean state apparatus highly centralised (Chibber, 1999: 27). Japan's Ministry of Industry and Trade (MITI) is another classic example of the importance of developmental agency since it played a huge role in shaping Japanese industry and trade (Johnson, 1982; Locke, 2005). Locke (2005) argued that the Ministry of Finance (MOF) has



always been critical in terms of making investments funding available for long term projects despite the presence of the MITI. The MOF has even become more important in the control of finance due to the increasing sophistication of the banking industry whose proclivity is not long term development financing.

The success of the Asian agency in effectively planning and implementing the developmental state projects was not a given. This is very important because any emulation that seeks to put developmental agency at the centre of planning without considering the competitiveness of personnel in the agency will be flawed (Huang, 2002). The effectiveness of the Asian developmental agency, highlighted above, lay in the meritocratic recruitment system through national examinations which allowed the bureaucracy to be filled with top achievers from top universities (Evans, 1995; Marginson, 2010). Marginson (2010) elaborated on the *Confucian* model of education in which families prioritise and value education. He argued for instance that “Some East Asian families spend as much on education as many Western families spend on housing” (Marginson 2010:10). This is done as Marginson argued, through an intensive system of private tutoring which grew as a result of competitive national examinations. Inequality in the Asian system was thus legitimised since the education system (‘one chance’ national examinations) and meritocratic recruitment were seen as competitive mechanisms justifying the positions of top government elites (Marginson, 2010). This system of meritocratic recruitment allowed a culture of excellence to develop in the bureaucracy and it allowed the development of a network of elites in charge of various ministries (Amsden, 1989).

The dismantling of development agency following the liberalization of the world economy has meant that resource allocation is done by the markets and this has seen the growing dominance of financial markets (Ashman *et al.*, 2010). This is different from the emphasis given to development finance in Asian countries and the current increasing ‘supremacy’ of central banks and national treasuries is shifting policies towards deficit containment. Huang (2002) argued that Korea’s commercial banks were required to deposit their funds with the Korean Development Bank (KDB). This helped the government to support loans which were crucial in facilitating the Heavy and Chemical Industrialization (HCI) in the 1970s (Huang, 2002: 553). This is the opposite of what is happening in the current era in which the existence of ‘industrial development finance’ or ‘development banks’ has not been directed towards huge national projects (see Kingombe *et al.*, 2011).

A complementary critical issue is the question of the ‘national bourgeoisie’ whose proclivities will enable or hinder the national bureaucracy in achieving their plans. This is important because even a platonic bureaucracy will achieve little if opposed by business elites. Finding Korea as an exception, Chibber argued that for Indian, Turkish and Brazilian business elites:

Business groups launched an all-out offensive against all instruments designed to give teeth to the planning apparatus, while clamouring all the while for more subsidies and more protection (Chibber, 2005:233).

It is a complex form of partnership because the proclivities of the business elites are in most cases not in line with the desires of the state bureaucracy and the Asian authoritarianism might have given state more power, albeit limited, to control the business elites (Chibber, 1999 & 2005). While the 20<sup>th</sup> century experienced the authoritarian bureaucracies in most fast growing Asian countries, the modern call for nationally oriented development programs requires different forms of embeddedness and alliances (Evans, 2010). Authoritarianism and marginalization of union movement in development were 20<sup>th</sup> century ‘tools’ which may not apply in the current era in which labour should be understood as an equal partner in any negotiated development consensus. As a result, important for this study are the contradictions of the 20<sup>th</sup> century bureaucratic systems if transplanted into the 21<sup>st</sup> century era as seem to be the case revealed in the current nostalgia for developmental states. Taking 20<sup>th</sup> century recipe for developmental states may prove to be more complex due to the current 21<sup>st</sup> century developments which make reproducing 20<sup>th</sup> century developmental states variants difficult (this is developed in section 2.4).

## **2.3 The Logic of State Intervention as pioneered by Keynes, Polanyi and Marx**

### **2.3.1 Laissez Faire Capitalism and State Intervention.**

The 2008 financial crisis has in some sense strengthened the logic of state intervention in the world capitalist economic development. In the Annual Milton Friedman lecture, James Galbraith argued:

Let Ben Bernanke come over to our side. Let him acknowledge what is obvious: the instability of capitalism, the irresponsibility of speculators, the necessity of regulation, and the imperative of intervention. Let him admit the intellectual victory of John Maynard Keynes, of John Kenneth Galbraith, of Hyman Minsky. Let him take those dusty tomes off the shelf, and broaden his reading. I could even send him a paper or two (Galbraith, 2008: 15).

Adam Smith’s often cited *invisible hand* suggests that individuals will always pursue their own interests and seek to maximise their own gains but they fortuitously end up promoting the best

outcome for society as a whole inadvertently. Such a natural force was thus believed to be the best for society and government intervention was only to be piecemeal in respect of its duty of “protecting society from violence and aggression; protecting every member of society from injustice and oppression; erecting and maintaining certain public works and public institutions, which will not be erected and maintained by individuals” (Karnick, 1996: 07). With Ricardo’s comparative advantage justifying local and international trade, capitalism found its theoretical basis for expansion, through free market principles. Based on early forms of capitalism, the 18<sup>th</sup> and 19<sup>th</sup> century experienced the first and second industrial revolution in Britain and in the USA respectively (Crafts, 1998). In these industrial revolution accounts, it is clear that the dominant message is that private pursuit of self-interest will yield public virtue hence the tendency of neo-classical arguments to always downplay the role of the state.

Commenting on the establishment of free market capitalism, Polanyi (1944) acknowledged the efficiency of any markets through the price mechanism but went further as he argued that:

There is a sense, of course, in which markets are always self-regulating, since they tend to produce a price which clears the market; this, however, is true of all markets, whether free or not. But as we have already shown, a self-regulating market system implies something very different, namely, markets for the elements of production - labor, land, and money. Since the working of such markets threatens to destroy society, the self-preserving action of the community was meant to prevent their establishment or to interfere with their free functioning, once established (Polanyi, 1964: 201).

The key idea is that free market systems are inherently unstable in the sense that they always present themselves, functionally, as a threat to humanity given the fact that factors of production are the basis for human life. Geras (1994) explained this notion clearly by arguing that once the value of labour power is changed into a false *appearance* of labour value, this conceals the core feature of capitalist production which is exploitation.

Polanyi’s analysis of capitalism was related to Marx’s view because Polanyi’s key argument is that the ‘commoditization’ of social relations tends to produce a counter movement by the society to defend itself from the whims of the free market system. This is what Marx regarded as the capitalist grave-diggers which come in the form of the proletariat. Block (2003:281) argued that the major difference between the Polanyi and Marx is that Marx tended to see the crisis as an inevitable activity happening at the ‘end’ of capitalist development. Thus in orthodox Marxism, crisis is an

eventuality of capitalistic development which may be faring well at early stages (see Harvey, 2003). Polanyi argued on the other hand that the capitalistic system itself was *built on a lie* and would never work as prescribed by its proponents – hence his emphasis on the *double movement*. This entails that, for Polanyi, there is always embedded capitalism rather than the ‘pure capitalism’ seen by orthodox Marxism.

Despite the contribution (perceived and real) of laissez-faire capitalism and free markets principles to the industrial revolution, capitalism has been associated with market failures, crises, inequality and environmental degradation. As a result, societies, organised labour, political opposition parties and other social groupings have been, since the early 19<sup>th</sup> century to the present, lobbying the state to regulate more in the market economies to moderate adverse social outcomes of capitalism. In his general theory, Keynes (1936:327) raised his concern on laissez faire capitalism when he argued that:

The outstanding faults of the economic society in which we live are its failures to provide full employment and its arbitrary and inequitable distribution of wealth and incomes. For my own part, I believe there is a social and psychological justification for significant inequalities of incomes and wealth but not for such large disparities as exist today.

Keynes, as Polanyi, saw the problem of the free market system as its failure to reproduce labour and capital because of the cumulative effects of unequitable distribution of wealth and income. Writing during the great depression, Keynes showed that, despite his critics arguing that his was only a diagnostic approach to policy, *laissez faire* capitalism is inherently biased towards favouring the capitalist class. Keynes, according to Crotty (1990) argued that the 19<sup>th</sup> century comprised of ‘heroic’ entrepreneurs whose desires to invest were based on their way of life compared to the 20<sup>th</sup> century’s (stage 2) emphasis on careful present value calculations of loss and profits. The international appeal of the 20<sup>th</sup> century capitalists became short sighted and focused on quick returns and the period became dominated by the *rentier* class. Lerner (1936) thus argued, in line with Keynes, that policies directed towards affecting the level of investments either by lowering interest rates or through government’s direct investment will reduce unemployment. This is different from the neoclassical simplistic notion that relates employment to money wage – the ‘distortionist’ argument. This led Keynes to call for the euthanasia of the *rentier* and increased efforts to diminish the exploitation of scarcity value of capital through government interventions (Keynes, 1936; Crotty,

1990 & 1998). Without government intervention, investments are limited by ‘artificial’ shortages created by the capitalistic class who push interests up for higher returns.

According to Przeworski (1985:11), capitalists always ‘vote’ for resource distribution in societies by deciding to employ or dismiss, export or import, invest or not. As a result labour’s propensity to organise and protect themselves through unions and political parties become more important. Polanyi (1944:156) also supported this notion by arguing that workers virtually become the only class available to protect the interest of consumers, citizens and ultimately human beings and with universal suffrage, workers would gain preponderance in the politics of any nation.

The logic of state intervention developed here is developed further in the next section which dwells on specific historical events which may help to bolster the debate on laissez faire capitalism and the role of the state. Events such as World War I, the Great Depression and the World War II had a greater bearing on the societies which forced the state to intervene much against the settled wisdom of free markets fundamentalists.

### **2.3.2 The Great Depression, the Interwar Period and the Post War Era**

The great depression and the interwar period exposed the relatively settled wisdom of free market triumphalism. Chang (2003:20) argued that the same period saw major state led programmes such as the New Deal and Scandinavian social corporatism. These programmes sought to increase industrial output, improve social protection and create more jobs. The Marshal Plan of 1947 was supposed to assist with economic recovery which could not be obtained from market economy orientations. Keynes, in his letter to President F.D. Roosevelt, was more enlightening of such times as he wrote:

That is why a war has always caused intense industrial activity. In the past orthodox finance has regarded a war as the only legitimate excuse for creating employment by governmental expenditure. You, Mr. President, having cast off such fetters, you are free to engage in the interests of peace and prosperity the technique which hitherto has only been allowed to serve the purposes of war and destruction (Keynes, 1933).

Both wars and the Great Depression thus gave the impetus towards increased state intervention with more benign outcomes in human life such as increased employment, income distribution and steady economic recovery and subsequent growth. According to Dore *et al.* (1999:107) in the USA, government expenditure during the Second World War improved research capacity and output levels giving the country a dominant world economy status with over 40% of world GDP by the 1950s. Field (2003) argued that the multifactor productivity advances were achieved before 1942. Thus in

Field's argument, the most technologically progressive decade occurred before the US participated in the war in 1942 and the New Deal interventions had massive supply side effects. In his interview on his book *A Great Leap Forward*, Field argued:

Federal spending was too small prior to the war to compensate for the decline in private sector capital formation and thus close the output gap. But it had big benefits on the aggregate supply side, as it complemented private sector initiative in expanding potential output (Interview by Leonhardt, 2011:1).

Field thus argued that the mixed economy outlook of the US was essential for the 'great leap forward' of productivity. This refutes the neoclassical emphasis on absence of government interventions in the US economy. The Great Depression and war years' impetus towards New Deal type of policies imply that if investment by the state could be maintained for the public good even during peace times, livelihoods would arguably improve drastically. Przeworski (1985: 213) argued that most of investment in capitalist economies is socially undesirable or wasteful citing for instance that "one bomber absorbs as much savings as would the modern mass-transit system from the city of Chicago." Keynes (1936), made the same point about societies relying on the psychology of investors who may choose to build pyramids, erect cathedrals (repentant of their sins), or dig holes in the ground, paid through savings. He argued that level-headed societies should not be dependent on such wasteful endeavours by investors when aggregate demand is understood. Keynes argued against Say's law, that supply creates its own demand, but instead emphasised that output is determined by effective aggregate demand which determines what firms produce thus determining employment as well (Lerner, 1936).

The logic of Keynesianism was apparent during the depression because machines stood idle while workers were out of work and the absurdity of the capitalist system was more blatant (Przeworski, 1985). Keynes (1936) argued that while consumers are always known to be spenders, investors are unstable (controlled by expectations of profit) and tend to overestimate returns during high growth and underestimate returns during a depression hence withdrawing their investments or investing sub-optimally. Skidelsky (2010a:83) aptly captured Keynes' postulation when he argued, "This feeling of uncertainty waxes and wanes: at some times people are more confident than at others. When confidence is high, the economy thrives; when it is low, it sickens." This led Keynes to allocate an active role to the state in terms of organizing and coordinating investments. Thus for Keynes capitalism's instability is centred on erratic investments which have long term effects through

unemployment and poor income distribution (Forstater, 2001). Heilbroner (1990: 1098) emphasises this while also giving credit to other forms of development as he argued:

There have been economic successes for socialism—above all, the initial industrialization of the USSR and the early modernization of China; there have been economic failures of capitalism—instability, uneven growth, unsatisfactory income distributions, and dangerous international imbalances.

Far from the failure of communism and central planning depicted by the hegemonic world interpretations of history, Heilbroner argues that there are and have always been problems with capitalist accumulation. The only solution, for Keynes, lay with state intervention (counter cyclical fiscal policy and welfare spending) which would create employment hence improving aggregate demand in the economy through the multiplier effect (Keynes, 1936). Forstater (2001) captured it well by arguing that “There is no alternative to either supporting a guaranteed job or a guaranteed income, it has to be one or the other, if we are talking capitalism.” With the wide adoption of Keynesianism, economies fared well and managed to contain the depression. With the end of the Second World War, the world economy entered into high growth again.

The post-World War era was dubbed as the ‘golden age’ because of low levels of unemployment, high growth of the world economy with the USA at the forefront of growth (Chang, 2003). While the actual cause of this new golden age was contested, there is a general agreement that many state intervention policies were crucial in the post war boom (Chang, 2008). Various industrial projects and research during the interwar period, besides being biased towards military spending, helped to construct the basis of the post-war progress. There was also an increase in stable demand (Keynesian) which could not be the case during the war. The automobile industry was revitalised, new industries like aviation and electronics also prospered. However, it was not long before the golden age began to degenerate into crisis (profitability, inflation, unemployment) and the disruptive shocks such as the oil crisis and the Vietnam war augmented the crisis (Gardul, 2011). This brought the opportunity needed by the proponents of free markets to rubbish Keynesian interventionism.

The portrayal of the 1970-80s, in the standard hegemonic economic discourse, as inevitable also helped to silence other alternative discourses of what was possible during the time. Arrighi (2003) argued that the conservative counter-revolution was based more on politics compared to objective economic conditions of the time. Morel *et al.* (2012:2) succinctly argued that neoliberals, from 1973 onwards, emphasised supply side paradigm, unjustifiably, which brought with it new views on social

policy as a wasteful cost and impeding economic growth. In Sweden for instance the consensus on social democracy began to face resistance from anti-socialist capitalistic forces even though the economic problems were not necessarily the outcome of social democracy (Skidelsky, 2010b).

With the victory of Reagan and Thatcher in the early 1980s, neoliberal enthusiasm and shareholder activism was introduced and many from the right welcomed the Reagan -Thatcher movement which was seen by many, as noted by Chang (2008), as undoing 40 years of stupidity. Their victory also came along with neoclassical ideas influenced by the ‘Chicago school’ and Milton Friedman’s monetarist onslaught against Keynesianism (James Galbraith, 2008; Burda and Wypolsz, 2013). This period also saw the emergence of the ‘Washington Consensus’ which as noted by Williamson (2004) entailed policy reforms aimed at restructuring public expenditure priorities, liberalisation of trade, privatisation, deregulation and competitive exchange rates among others. As Fine (2010) argued, Washington consensus engendered a mentality of promoting minimum state intervention and free markets which together form the core of neoliberal ideas. The Washington consensus got a sense of validity even more from the later ‘collapse’ of the Soviet Union which many would regard as the final nail to the ‘coffin of state planning’.

The neo-classical triumphalism was challenged by the post Washington consensus and Stiglitz has been one of the scholars on the frontier of the post Washington consensus. He argued for instance that:

If there is a consensus today about what strategies are most likely to promote the development of the poorest countries in the world, it is this: there is no consensus except that the Washington consensus did not provide the answer. Its recipes were neither necessary nor sufficient for successful growth, though each of its policies made sense for particular countries at particular times (Stiglitz, 2004: 1).

The 2008 financial crisis has again proved in some sense to be another episode of strengthening the post Washington consensus. While the 2008 crisis was seen just as a financial crisis and all what was needed was to revamp the system, the interpretations of such events on purely economic basis may occlude equally important issues such as the deep socio-political problems inherent in capitalistic systems.

### **2.3.3 The Crisis of Liberal Capitalism in the long term perspective.**

With US manufacturers competing with those in Japan and Germany, their labour-capital conflicts partly caused US competitiveness to decline and hence created the need to devalue the US dollar



periodically from 1969-1973 (Arrighi, 2003: 11). This reveals the ‘horizontal’ and ‘vertical’ problems of capitalism. The ‘horizontal’ problem entailed the increasing inter-capitalist competition associated with relentless price wars squeezing profitability from competing firms. This was worsened with the ‘vertical’ crisis of capital-labour conflicts in which labour movement had preponderance since its “... main weapon of struggle was the disruptive power that mass production puts in the hands of strategically placed workers.” (Arrighi, 2003:32).

Preoccupation with technical means to mitigate the crisis continues, as in the past, to eschew radical debates on the irrationality of the system itself. The 2008 financial crisis, as argued by Amin (2011: 5), was only a sign of the long term crisis of ‘maturing’ capitalism and as such was only the tip of the iceberg. Smith (2010: 07) candidly encapsulated it when he wrote that,

It was the long overdue puncturing of bubbles especially housing bubbles associated with highly dubious financial instruments (Marx’s fictitious capital) that sent shock waves to the rest of the economy and the subsequent downfall. The effect of the crisis thus was to deflect attention from the systemic irrationality of the system of capitalism (inevitable fall in profitability) to the greed, corruption of some capitalism and the ultimate goal was to save the system.

Firms, acting rationally acting on their own<sup>9</sup>, had to choose the easy option which is ‘financialisation’ which refers literally to money making without the facilitation of the production process (Marx’s headquarters of the capitalist system). When inter-capitalistic competition was moved from productive activities into the financial realm, the outcome was financial innovation. It can thus be argued that a consequence of ‘financialisation’ is mediocre growth in real output as more volatile short term capital flows in and out of nations unproductively, which further dampens the prospects of employment. The argument for lack of investable funds, as argued by those who argue for capital account openness, has been refuted by Rodrik and Subramanian (2009) who argued strongly that “...developing economies are as or more likely to be investment – than savings – constrained and the effect of foreign finance is often to aggravate this by appreciating real exchange rates”. This is a much more nuanced analysis than the simplistic hegemonic discourse which says that what developing countries need is capital – without even considering the costs. This assumption of the need for capital has also caused more emphasis to be placed on institutions and good

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<sup>9</sup> This is related to Keynes’s notion about bankers when he argued that “The ‘sound’ banker is not the one who sees danger and avoids it, but one who, when he is ruined, is ruined in a conventional and orthodoxy way along with his fellows so that no one can really blame him.” (Keynes quoted in Skidelsky, 2010:25).

governance as necessary pre-requisites for benefits of capital account openness (Rodrik and Subramanian, 2009).

*Crisis of forging ahead and lagging behind*

As argued by Arrighi (2003), the capitalistic crisis of profitability was compounded by the parallel crisis of US hegemony especially after its defeat in the Vietnam War. The Reagan-Thatcher alliance was also not only responding to the unresolved crisis of profitability but was also a response to the deepening crisis of hegemony. The US had emerged as the leader (political and economic) in the world economy and hence there was (is) constant desire to continuously affirm that position.

The foregoing argument reveals that the crisis of capitalism cannot be separated from the crisis of political power that continues to afflict the world political system. Amin (2011: 3) argued that Obama continued with Clinton and Bush's program of militarising the way globalisation is operated and this cannot simply be viewed as a result of a "passing aberration of Washington administration." Recently, commenting on the Republic of Korea, Gray (2013), argued that the massive US military base in Seoul confirms that Korea remains a semi-sovereign state with its purpose decided outside its borders. In addition to the above, a seemingly important aspect which is often ignored, as argued by Crouch (2009), is the scientifically driven military sector with a number of firms in a close secretive relation with US state department. Such investment, which in that respect may require the US to be seen as an interventionist state, is not separated from the quest for hegemony in the global political economy.

In light of this double crisis (liberal capitalism and crisis of hegemony), one wonders where the third world fits into the grand scheme of things. There has been an increasing ghettoization and proliferation of the 'slum planets' across third world countries (Amin, 2011:56). Colonization was also a means of achieving territorial aggrandisement by rich nations of the past and this cannot be separated from the current level of commercial greed which is associated with modern capitalistic systems and neither can it be removed from hegemonic aspirations (capitalism and imperialism cannot be separated). The agrarian question (land question in particular) which haunts many people in third world countries is central to the accumulation by dispossession discourse, which at world level was dubbed by Amin (2011:8) as 'global apartheid'.

The reality of systemic crisis of liberal capitalism is bare and whether it is to continue on its current mode of ‘crisis management’ fully depends on the political will of the elected parties to restructure their economies. There is often acquiescence, by the governments, to global capital’s ‘demands’ and this is done in the name of remaining competitive (Rodrik, 1997). Fear of the Soviet style ‘collapse’, Marxist Leninism, communism and other forms of radical socialism may lead many to accept, as did Fukuyama (1989), that liberal capitalist democracy is the only viable option available. While the liberals view Marxism as an anti-empirical position only oriented to criticism without its own substantive research (Dunleavy and O’Leary, 1987), acceptance of liberal system is not the result of substantive research. It rather portrays a proposal, by neo-liberals, for inaction if not paralysis towards policymaking despite various levers available for governments to use in developing and shaping their economies.

The ‘alternatives’ to neo-liberal capitalism are thus important for most developing countries which have not fully developed to function as full market economies. The ‘alternatives’ are not a panacea because most developing countries do not merely require good governance but multiple factors interplay which require a state’s coordinating role. It is thus crucial to turn to the Asian development model since it has been key one of the outstanding ‘alternative’ of the 20<sup>th</sup> century despite being refuted by neoclassical hegemonic discourse (Hall and Soskice, 2001).

## **2.4 The Asian Developmental state Paradigm**

### **2.4.1 The ‘developmental state’**

When two relatively ambiguous words are combined to form a concept, it may be even more difficult to understand what that concept entails and this has been the fate of developmental state (DS). As noted earlier, the DS presupposes development and since the ‘state’ has been alluded to earlier, now the task is to find out what qualities does the state needs to have to be considered ‘developmental’. Put differently, what achievements or priorities should the state have to be considered developmental.

So if the *developmental state* presupposes development, what then is development? The answer to this question is not simple because the term ‘development’ has arguably been subject to abuse because it is easier to exploit due to its tendency to become just a buzzword easily inserted into various ‘development’ discourses (Cornwall, 2007). In its simplest form, development (in socio-

economic terms) involves human development and there are various ways in which human development is achieved. According to the United Nations' report on human development (1996: 1), "human development is the end and economic growth is the means" This means that economic growth (GDP) is a key indicator of development but it is widely acknowledged that development goes beyond quantitative national output since GDP alone does not mean increased wellbeing of the citizens. Using GDP as a proxy for development is misleading because it does not reveal quality of life and it assumes equal distribution of wealth (trickle down).

In 2002, the UN millennium declaration was made and the Millennium Development Goals (MDGs)<sup>10</sup> revealed a wide range of issues which relate to human development. In keeping with the hegemonic discourse, no direct reference to the importance of agency in achieving these goals was made.

Johnson (1998: 50) noted that Japanese people in general did not benefit much from their country's economic growth since their standard of living did not change significantly to anywhere near the growth of national domestic product – at least during early phases of growth. This is supported by other analysis from China's urban biased 'developmentalism' between 1980 and 2003 has not helped to lift the rural poor out of poverty (Hsing, 2010:183; Hung, 2009). Myrdal (1974:729) gave an encompassing definition of development which cut across all spheres of human life as he argued:

By development I mean the movement upward of the entire social system<sup>11</sup>, and I believe this is the only logically tenable definition. The social system encloses, besides the so-called economic factors, all economic factors, all noneconomic factors, including all sorts of consumption by various groups of people; consumption provided collectively; educational and health facilities and level; the distribution of power in society and more generally economic, social, and political stratification; broadly speaking, institutions...

Myrdal illustrates that development is actually a much more complex phenomenon than the current conventional emphasis on GDP. This brings to the forefront the issue of sustainability of development and according to the World Bank (1997); sustainability refers to "meeting the needs of the present generation without jeopardising the ability of future generations to meet their own

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<sup>10</sup> Eradicate extreme poverty and hunger, universal primary education, gender equality and women empowerment, reduce child mortality, improve maternal health, combat HIV/AIDS, malaria and other diseases, environmental sustainability, global partnership for development with target for aid, trade and debt relief(UN, 2002).

<sup>11</sup> This is closely related to his famous 'American Dilemma' in which he expressed worries concerning the existence of American liberal ideas with black American people's misery before the 1950s civil rights protests.

needs.” The Growth Commission’s report only refers however to sustained growth (GDP) of the Asian economies rather than broader sustainability which encompass many other issues like environmental issues and human wellbeing. With this complex notion of development, how then is a ‘developmental state’ understood and in particular can there be one model of developmental state or is it better to argue that all states are developmental in their own right depending on their ‘development’ priorities? For instance Burger (2013: 2) argued that both China and Brazil have been considered to be developmental states but their pursued policies vastly differ making their economies different as well.

#### **2.4.2 The Asian model of the ‘developmental state’**

The World Bank’s Growth Commission report (2008: 20) identified that since the end of the Second World War in 1945, 13 countries have sustained high economic growth and of these countries nine are from Asia. Such high growth has drawn attention from academia, political realms and policymaking circles and more often referred to as economic ‘miracles’ (The World Bank, 1993; Evans 1998). Developing nations in particular have shown much interest in understanding and adopting some of the policies believed to have caused the high growth of the Asian ‘miracle’ economies. Various interpretations have been put forward to explain the policies which led to high growth in these economies but there is no solid consensus as to what the exact policy ‘tool-kit’ was behind these successes.

The Asian high growth model, which has become known as the developmental state, has been attributed to the following countries in particular; Japan 1950-1970 (Johnson, 1982); Taiwan 1970-1990 (Wade, 1990); South Korea 1960 -1990 (Amsden, 1989); Singapore 1961-2000 (Joshi, 2012). Without being generic, the above countries have often been the key constituents of the DS model and in rather cautious manner China has been seen to be possessing the DS attributes (Knight, 2012). The Chinese central planning which gave priority to rapid industrialisation, especially in the post 1976 era when economic reform took precedence over politics, is the justification why China should be brought in (Baek, 2005; Hung, 2009; Knight, 2012). The second generation of NICs such as Malaysia, Indonesia, Philippines and Thailand have also been increasingly adopting similar approaches to technological development initiated by the first generation NICs in a ‘flying geese’ pattern (Palma, 2009).

Before attempting to give a concise definition of the DS, it is already obvious, even from the Growth Commission report that the DS is biased towards economic growth (high growth equals developmental state – Asian DS’s singular objective) and this is evident by less emphasis given to other issues like environmental protection and equality of income distribution. Kim (2010) argued that a DS cannot endure its existence if it fails to deliver on the core goal of economic growth thus showing that DS status can be stripped away once economic growth is no longer considered spectacular.

With no consensus as to the particular universal definition of the concept, various definitions at least emphasise the greater role of the state. For instance Wade (1990), noted that it involves a centralised state networking with the private sector from a point of pre-eminence so as to ascertain specific developmental objectives. Knight (2012: 02), also noted that “It is best defined as one in which the state gives overriding priority to the objective of rapid economic growth and adopts policies which are successful in achieving that objective.” Johnson (1982) emphasised that the DS is seen as ‘plan rational’ rather than ‘market rational’. This suggests that for the DS, there is an active development strategy, driven by the state, which may not necessarily conform to the market mechanism (the famous ‘getting prices wrong’) (Amsden, 1989).

Retrospection is what has driven the understanding of the concept of DS and such historical descriptions have been diverse and the argument is that the Asian ‘miracle’ economy countries never knew when they were in the processes of developing what is now believed to be the DS. According to Joshi (2012: 385), the DS emerged long before anybody considered naming it and classic examples may be “the Netherlands in the 16<sup>th</sup> and 17<sup>th</sup> century, Britain from the 16<sup>th</sup> to the mid-19<sup>th</sup> century, Germany in the late 19<sup>th</sup> century and Japan since the Meiji era.” The Hamilton era in the US could be, arguably, included as having attributes of these early generations of DS. This means that the DS paradigm was never a goal of the East Asian economies but earnestly trying to catch up with the advanced economies, there was “*learning by doing* with trial and error, serendipity, bumbling, stumbling, intelligent emulation and technological borrowing” (Mkandawire, 2010: 20). This led Wade (2004) to conclude that DS should not be seen as a theory per se because its specification lacks comparative analysis favouring description and what the DS is contrasted to is not clear.

In the historiography of the DS, there are various interpretations in terms of what explains the relatively fast growth experienced in Asian countries. It is important to highlight that these interpretations of the Asian DS tend to be profoundly ideological as shown by different schools of thought. There is what can be called the ‘market dominance school’ led by the World Bank and IMF (International Financial Institutions- IFIs); there is the ‘geopolitical school’ and there is the ‘state dominance school’. The ‘geopolitical school’ has not been dominant as the other two ‘schools’ but it is equally relevant in understanding all the ‘explanatory variables’ of the Asian DS. Even though geopolitical school is not going to be developed further, Hung (2009: 06) is worth quoting:

The story of the rapid post-war rise of Japan and the four Tigers—South Korea, Taiwan, Hong Kong and Singapore—is well known, and need not be repeated here. But if their dynamic ascent can be attributed to the role of their centralized authorities in directing precious resources to strategic industrial sectors, it is equally important to recognize that it was the Cold War geopolitics of East Asia that made developmental states possible there in the first place.

Thus Hung is arguing that any explanation of the Asian tigers needs to start from the Cold War geopolitics as a founding political basis of the faster growth of Japan and the four Tigers. As a result, the state dominance and the market dominance schools are backed by the geopolitical school. The state dominance school serves two purposes and these include countering the market dominance school and developing its own argument of state dominance. Few attempts were made to reconcile the two schools into what can be called “The state-market condominium” which argues that the DS can be realistically understood to be as a result of the “state-market integrated ensemble of governance” (White, 1998: 8; Underhill and Zhang, 2005). White (1998) argued that the role of the state and its initiatives alone cannot explain sufficiently the policymaking processes in the Asian ‘miracles’.

#### **2.4.3 The Market Dominance School**

In its report on the East Asian miracle, the World Bank (1993: 33) emphasised that the Asian success story was possible because they “got their fundamentals right”, which was achieved by “ensuring adequate investment in people, providing a competitive climate for private investors, keeping the economy open to international trade and maintaining stable macroeconomic policy.” This has been the message not only of the IFIs attempting to account for the success of the DS, but has also been

their mantra in justifying structural adjustment programmes (SAPs) implemented across developing nations (Akyuz and Gore, 2001). In support of this view, Fukuyama (1989:5) argued that:

The *Wall Street Journal* school of deterministic materialism habitually points to the stunning economic success of Asia in the past few decades as evidence of the viability of free market economics, with the implication that all societies would see similar development were they simply to allow their populations to pursue their material self-interest freely.

In spite of different circumstances across nations, the IFIs frequently argue that free markets are the way to go and thus they argue that the DS was a by-product of Asian countries' fidelity to the free market system. Chang (2008) equated this approach to Henry Ford's approach to variety that 'a customer could have a car painted in any colour provided it's black'. In a similar vein, the IFIs would welcome any policy provided it conforms to free market principles. In observing the IMF's reaction to the Asian crisis, Wade and Veneroso (1998: 18), found it inappropriate that the IMF would impose free market reforms in Asia as comprehensive as those imposed on Russia. This was because the Asian financial structure – high debt to equity ratios – did not call for such comprehensive reforms. Promotion of competitiveness is at the core of the IFIs arguments and they argued that the pursuit of competitiveness in Asian firms led to the establishment of the Asian DS. Such enthusiasm for free markets is thus believed to have led to the successful export led growth in the Asian DS since they became competitive on world markets and were able to produce goods for consumption in countries beyond their borders (The World Bank, 1993).

#### 2.4.4 The State Dominance School

This has been the major interpretation, at least to those who argue for state intervention, of the Asian success story and this school is behind the formation of the term DS as coined by Johnson (1982). Johnson emphasise how the government of Japan had been critical (Ministry of International Trade and Industry (MITI)'s plan rational) in shaping economic outcomes in Japan. In his account, Johnson acknowledged that the main instrumental elements of the DS were the state bureaucracy (agency) and politics operating in conjunction (politicians rule and the bureaucracy reigns) (Johnson, 1982). Johnson's analysis emphasised MITI as the main thrust of Japanese DS. This argument is limited because it focuses on reforming the industrial policy without reforming the macro-economy in general and financial structure in particular – even more critical for recent years. Critical is the argument by Locke (2005) and Wade and Veneroso (2009) that in Japan the MITI was crucial in the early years of industrialisation through practices such as picking *winners* but the Ministry of Finance



(MOF) is now at the centre of planning. This is crucial because industrial policy alone can be circumscribed, as shall be seen in South Africa's New Growth Path, when finance is left to be autonomously inimical to development. Locke (2005) argued that control of finance was crucial in Japan as finance could be channelled towards long term projects which took time to mature for profits to be realised – taming the short-sightedness of 'quick profit' oriented finance. Locke argued that:

This huge torrent of savings flows to a handful of major banks, which the government has under its thumb because banking is extremely regulated in Japan, enabling regulators at the Ministry of Finance (MOF) to crack down on any bank at any time they see it doing something they don't want it to. So the banks are subject to the whim of the government, which then controls the economy by controlling how the banks allocate all this capital. [...]

What the MOF does want is to supply huge quantities of cheap capital to Japanese industry to build up its long-term productive capacity. The MOF wants capital to be paid a low return so that Japanese companies will enjoy the competitive advantage of access of cheaper capital than their European, Asian, and American competitors (Locke, 2005).

It is clear that the control of finance is primary goal of the Japanese MOF and the supply of cheap capital was thus spurring the Japanese industries. Once the control of finance was secured in Japan, it became easy for firms to be long term oriented thus building the culture of life time employment that "aligns the interests of the worker and the company to a much greater degree than under a hire-and-fire system" (Locke, 2005). With the help of the Confucian educational model that emphasise technical skills, the lifetime employment also means that the level of expertise is high in most Japanese firms and as a result the firms tend to have international competitive advantage (Marginson, 2010).

As argued by Wade (2004:33), the need for political survival was not separated from productive investment and high economic output and as he argued "political calculations often shaped industrial policies." In cementing political legitimacy, governments have sought high economic performance to remain in power and this also explains why the DS has survived under authoritarianism. The paradoxical term 'embedded autonomy' coined by Evans (1995) has been applied to explain the nature of the relationships in the DS between the state and the non-state sector chiefly the private sector. Embeddedness as explained by Evans (1995) entails the state networking with the private sector, rather than commanding it, while autonomy on the other hand refers to a political insulation that allows state officials to execute their duty of policy-making professionally without succumbing

to private sector's particularistic interests. According to Johnson (1982: 44), "...it must be pointed out that the effectiveness of the developmental state requires that the bureaucracy directing economic development be protected from all but the most powerful interest groups so that it can set and achieve long-range industrial priorities". This idea of the state being linked to the private sector from a position of pre-eminence, such that the state acted as an entrepreneurial agent within the economy, is what many believe made the DS achievable (Wade, 2004).

Hence, state led industrial policy, underpinned by the control of finance, is believed by many to be the main tenet of the Asian DS with selective intervention helping to encourage certain firms to achieve exporting capacity. In all these state led policies, the main policy area was in the control of finance and ultimately investments because with the financial sphere liberalised optimal investment would not be achieved in South Korea and Japan (Kim, 1993; Locke, 2005). Contrary to the situation in many other developing nations, state assistance like subsidies in the DS were not taken simply as 'gifts' from the state, but rather were enforced via performance requirements, which threatened possible sanctions. This was especially true for countries where financial control was in the hands of the state such as in South Korea (Chibber, 1999). According to Amsden (1989), the process of industrialisation, which in East Asia was informed by a commitment to *learning by doing*, owes a lot to state intervention and its ability to enforce the implementation of such projects.

In a rather pragmatic attempt to define economically the DS, capturing the role of the state more precisely, Wade and Veneroso (1998: 7) argue that, "High household savings, plus high corporate debt/equity ratios, plus bank-firm-state collaboration, plus national industrial strategy, plus investment incentives conditional on international competitiveness, equals the developmental state." This was further supported by Akyuz and Gore (2001) as they noted that the East Asian success story was possible because of rising savings, investments and exports linked together in a virtuous cycle which could not be achieved in other developing nations. With abundant savings, the developmental agency in Asian economies managed to direct the funds into strategic investments such as automotive (Korea and Japan) establishing national key industries and international competitive advantages (Huang, 2002; Locke, 2005) Thus at a macro level, capital controls and the saving/investment nexus was crucial besides the micro-focus on certain firms done through industrial policy.

This focus on adopting industrial policies was what Keynes proposed even in the 1920s arguing that if competition is given pre-eminence, the proclivities of the business class could only lead to quick profits orientation. Crotty (1998) argued that Keynes:

...applauded the ongoing trend toward increased reliance on public corporations, and argued that the government should not only accept the current movement toward cartels, holding companies, trade associations, pools, and other forms of monopoly power, but should proactively assist and accelerate this trend in order to regulate and control it. When Keynes heralded the death of laissez faire in the 1920s, it was not just macroeconomic policy he had in mind. He called with equal enthusiasm for the state to adopt powerful industrial policies to regulate enterprise and industry behaviour. At least in this period, Keynes was unabashedly corporatist (Crotty, 1998: 556).

Thus for Keynes neither nationalisation nor unregulated competition contained the solution but the solution lay in various experiments which attempted to get the best from both worlds. This was to him the most tenable way of ensuring the growth of public corporations and semi-autonomous bodies, such as GOPOs (government owned, privately operated companies) which maximised the public good (Crotty, 1998). For maximising employment Keynes advocated for typical active labour market policies:

It must be the concern of the state to know and have a policy as to where labour is required, what sort of training is wanted; and then where there are maladjustments, as there are in the coal industry, to work out plans for the transfer of labour from localities and trades where there is not demand to localities and other trades which are expanding and not declining (quoted in Crotty, 1998:567).

So besides coordinating investments, the state's role in the labour market is crucial. The neoclassical approach is the one which advocates the state disciplining labour and any government intervention such as minimum wage regulations is seen as distortionary. The state's role in nurturing investment and industry growth with the aim of achieving international competitiveness is well demonstrated by the Korean case (Huang, 2002).

Huang (2002) compared the Chinese and Korean Automotive industrial policies and he found that Korea managed to build a strong automotive industry because of its interventionist policies. Unlike the Chinese automotive industry which had a fragmented structure, the Korean government was able to kick start investment through the use of subsidies and protection. This was easy to achieve because the planners had finance under their control and banks could be directed, under the state control, to give loans to certain firms (Huang, 2002). Chibber (2002) argued that the Korean

Economic Planning Board (EPB) was a genuine nodal agency which commanded cooperation from ministries which eventually structured state apparatus around planning needs. The Korean industrial policy framework was to accelerate the transition towards having a developed automotive industry faster than market allocation could have made possible (Huang, 2002). Huang depicted the need for state coordinating role using what he called coordination failure one (CF1) and coordination failure two (CF2). CF1 is the usual market failure story where investments are lower than optimal levels due to market imperfections. In solving CF1, the state uses subsidies and trade protection to allow optimal investments to be realised. This however creates rents and rent-capturing actions by firms leading to many entrances of firms in the industries failing to capture economies of scale since financial resources and market opportunities are dispersed among many firms (CF2) (Huang, 2002, 547). As a result the Chinese automotive sector remained fragmented with many firms entering into the industry and operating under minimum scale efficiency. Chibber made a similar observation arguing that:

The key to understanding the vicissitudes of post-war development strategies is that state managers didn't simply nurture domestic firms by offering them protection and subsidies; these measures were part of a larger policy package, central to which was an attempt at capitalist planning (Chibber, 2005: 23).

While the Korean success in automotive industry was based on its ability to curtail both CF1 and CF2 problems, the Chinese government only managed to solve CF1. In other words solving CF2 can be seen as the nurturing part of the role of the state which succeeded in Korea because the Korean agency (EPB) managed to induce the 'national bourgeoisie' to accept planning. This according to Chibber (2005) was what set Korea apart compared other developing countries such as India and Brazil.

Commenting on South Korea, Amsden (1989) maintained that despite the general portrayal of South Korea as a free market economy, business people who were familiar with the South Korea's import regime were inclined to label it as essentially restrictive and full of hidden obstacles. This shows that import substitution was not a non-existent scenario in South Korea despite its portrayal, by the market dominance school, as an export-led industrial economy.

*The all-powerful state in the State Dominance School*

Some portrayals have gone to the extreme in portraying the government as invincible in championing the DS in East Asia. As Chibber (1999:138) put it “In their enthusiasm for overturning the neoclassical myth, statisticians have unconvincingly given the state power not only to discipline individual firms but power to set the agenda for the whole business class despite its own preferences.” General Park’s seizure of power in a military coup in 1961 followed by the move to nationalise all banks in South Korea has been seen as placing unlimited power in the hands of the state therefore marginalising the whole business class in policymaking (Chibber, 1999 & 2002). In view of the state’s financial hegemony and energy to curb illicit wealth accumulation (Amsden, 1989:73), the state dominance school down-played the capitalists’ power and interests to shape industrial output. According to Przeworski (1989: 211), the supply side is crucially in the hands of the bourgeoisie and any government intervention which unravels profitability may be inimical to growth. As a result, capital maintained a considerable degree of autonomy which makes the credit given to the state for the DS a bit exaggerated. Park (1978) also discovered that many big capitalist businesses had channels through which they exercised their influence over the state thus altering policy outcomes. According to Huber *et al.* (1993) in most developed countries the bourgeoisie contributed to the attainment of democracy by insisting to have some form of political power through parliamentary control but with their interests threatened by further democratisation, they became hostile.

Arguing expressly in favour of authoritarianism and brushing other issues such as democracy aside, White (1998:3) noted that,

The nagging memory of successful industrialization through statist methods under authoritarian regimes in East Asia refused to go away and was given new impetus by the equally impressive success of other authoritarian or semi-authoritarian regimes in the region, such as China, Vietnam, Malaysia and Indonesia over the past two decades. I believe that what a country needs to develop is discipline more than democracy. The exuberance of democracy leads to indiscipline and disorderly conduct which are inimical to development.

Hall and Soskice (2001) noted that states in Coordinated Market Economies (CMEs) may not simply tell the economic actors what to do not only due to the complex nature of business outcomes but also because the state lacks appropriate strategies since what agency can do to ‘drive’ the whole economy is limited. While the state had a role to play in the DS, its ability to ‘intimidate’ capital into following state interests was not complete especially given the nature of intervention was most often economic, in which businesses often determined the nature of such intervention (Hall and Soskice,

2001). This was supported by Underhill and Zhang (2005) and Gardul (2011) in particular when he reiterated that the spectacular economic performance of the East Asian countries (Japan, South Korea and Taiwan) did not stem from the competent supreme authoritarian states but was as a result of state and private sector ‘negotiating’ on industrial policy.

Authoritarianism has been widely acknowledged as being the main political attribute of the DS. Except for Japan, most of the countries (South Korea, Singapore, Thailand, Indonesia and Malaysia) in the Asian success story were authoritarian regimes (at least at some point during high growth phases) (Hayashi, 2010). This has brought the notion of ‘development first and democracy later’ (Telley, 2010; Gray, 2013). Authoritarianism, from the viewpoint of the state dominance school, gave the state the space to wield unlimited power in its interaction with the leading capitalists who were at the forefront of industrial progress. Expressing his concern, Mkandawire (2008), notes that because of the East Asian success, authoritarianism has insinuated itself into the very heart of development studies and at the same time issues of democracy are being relegated. In other words, while the authoritarianism was part of the DS dynamic, the focus on it alone may be a ‘slippery slope’ in most developing countries which in many ways lack other ingredients of the DS as it existed in Asia. This means that political authoritarianism is bound to fail especially if state elites neglect organised labour and seek to deal with capitalists as Chibber (2005) argued: “It never seems to have occurred to this group that an alliance with a mobilised labour force might have bolstered their leverage against a resistant business class”. This reveals the fact that the assumption that ‘national bourgeoisie’ would naturally support developmental policies made the state elites underestimate the importance of organised labour for any national developmental policies. As a result without organised labour’s support many states in developing countries failed make capitalists conform to the needs of planning (Chibber, 1999 & 2005). Chibber argued:

In India and Turkey capitalists attacked, and then rolled back, what were rather radical designs at state restructuring. The Brazilian experience was different, in that the political leadership never had the same level of commitment to planning, and hence never drew up comparably ambitious blueprints to which capitalists had to respond (Chibber, 2005:235).

One of the key aspects enshrined in the state dominance school is the notion that the welfare regime was absent in the DS and that embeddedness was only present in sense of the state –private sector and not towards social inclusion. The notion of ‘growth first’ underpinned the statist approach and hence much focus has been on what the state did authoritatively to promote fast growth (Johnson,

1985). According to Kwon (2009), studies on the DS have never explicitly focused on poverty reduction and some studies have concealed how South Korea for instance managed to combine economic development and poverty reduction. Hung (2009) argued that Japan, South Korea and Taiwan made huge investments in their rural population and increased, for instance, the South Korean rural household income per capita from 67% of urban income to 95% in the 1970s – thus it “virtually obliterated the rural-urban income gap” (Hung, 2009: 12).

According to Estevez-Abe *et al.* (2001:145) social policy has been seen as “politics against the markets”, which is a view that is also augmented with the notion that social policy means a big welfare state that is inimical to economic development. Yet issues such as skills, income distribution, education, health and employment are also enshrined in social policy and without these, quality of life would not improve short of high growth in national output. East Asian economies have been performing well in the areas of skills development, education and employment. Indirectly, the DS mitigated social problems such as skill profiles which were industry and firm specific. Estevez-Abe *et al.* (2001) argued that systems oriented towards general skills tend to result in the emergence of an underclass caught in a poverty trap. This happens because they lack the skills necessary for active employment because the system favours those with academic ability.

The above social policy interventions highlights that the important building block for the Asian DS was the secure social foundation which made the construction of the DS easier. The nostalgia for the DS in developing countries does not acknowledge that the Asian ‘hidden’ social policies contributed to the success of the Asian developmental projects (Mkandawire, 2008). Kwon (2009) touched on an important issue regarding the East Asian economies that might have helped to secure social foundation in these countries. He argued that countries like Taiwan and South Korea carried redistributive land reform soon after the Second World War at a time when land was the main source of wealth. This suggests that while these countries were initiating their DS state projects they did not have a huge ‘reserve army’ of the landless and unskilled people whose welfare depended on jobs and the state alone. Strong education system and land ownership reforms meant a bedrock for the developmental state as Kwon and Yi (2008:9) wrote,

In brief, land reform not only redistributed land to significantly reduce inequalities in landownership, but also served as a powerful social policy, lessening poverty and increasing the educational level of the rural population. Land reform also led to the demise of the landowning class as a dominant social force. The end of the landowning class created a

vacuum in the class structure and allowed considerable autonomy to the developmental state to push through with industrialisation.

### *The nostalgia for the bygones*

At the same time, would-be developmental states must recognise the powerful contextual advantages that history conferred on the 20<sup>th</sup> century developmental states (Evans, 2010:48).

The nostalgia of the developmental state in most developing countries is rooted in the 20<sup>th</sup> century sense in which Asian economies were trying to catch up with the developed nations within a context different from the 21<sup>st</sup> century. It was the era of subservient and enfeebled labour movements and life long career development – in particular firms and in the public sector (Chibber, 2002). The 21<sup>st</sup> century economy has changed and industry as traditionally understood, in the Fordist sense, can no longer be the main pillar of development. In particular, the manufacturing sector itself seems to be giving way to services sector and the precariousness of employment has seen many moving in and out of jobs frequently. For instance Evans (2007) argued that between 1995 and 2002, China's manufacturing jobs shrank by 15 million and it is unlikely that the manufacturing sector in the 'workshop of the world' will employ more than 15% of labour force in the 21<sup>st</sup> century.

With the 'tertiarisation' of the 21<sup>st</sup> century economies, the political alliances which were possible between the state and only a small network of elites, spearheading the national development projects, are no longer viable (Chibber, 2002). New forms of embeddedness are required to allow the state to be an empowering agent to the citizens (Evans, 2010). This broad embeddedness is what makes "...democratic dialogue so crucial to the 21<sup>st</sup> century developmental state" (Evans, 2010: 49). This is totally different from the 20<sup>th</sup> century developmental state model which emphasised a 'vanguardist' type of top-down 'delivery' of development to passive citizens. In other words, in the service oriented 21<sup>st</sup> century economy the focus has to be placed on enhancing people's capabilities. Evans (2010) made the point clearer by arguing that:

Looking at the 20<sup>th</sup> century development agendas, it was possible to imagine that 'growth policy' could be separated from 'social policy' or 'welfare policy', such that 'growth policy' could be built around partnerships between the state and capital – partnerships that did not



have to concern themselves with well-being. The 21<sup>st</sup> century developmental state cannot afford such myopia. Policies that expand capabilities may look like ‘social policy’ of ‘welfare policy’ but they are essential to growth policy (Evans, 2010: 50).

Evans’s point is besides the fact that the 20<sup>th</sup> century ‘growth policy’ often had immediate results in job creation unlike the current era in which the ‘growth policy’ may even be a jobless growth. As a result of this 21<sup>st</sup> century reality of the vicissitude of employment, there is need to rethink the welfare state because not everyone will be employed and much employment will be unsuitable as the basis of social reproduction. A liberal welfare regime’s ‘residualist’ approach was only effective in the 20<sup>th</sup> century where near-full employment and ‘welfare capitalism’ (discussed below) meant that only a few people would need assistance from the state. The next section turns towards social democracy as a more viable approach in developing nations because of its emphasis on the welfare regime and on skills, active labour market policies, capability enhancing and its affinity to broader political alliance and dialogue required in the current era – a good example being the current South Africa’s call for social compacts.

## **2.5 Social Democracy and its virtues of pragmatism and compromise**

### **2.5.1 Social Democracy as a form of evolutionary socialism**

Ideologically, the developmental state theme has fared relatively well as compared to the social democratic theme. This is surprising because both paradigms have fared well objectively in their respective contexts. Arguably the inclination to ‘developmentalism’ has caused the DS to gain a better purchase in the development discourse. Social democracy’s redistribution ethos tends to be much more subversive and inimical to the interests of capital than the vagueness inherent in the concept of ‘developmentalism’. Hegemonic historical narratives have continuously portrayed the 20<sup>th</sup> century, especially from 1970s, as a failure of social democracy (Hirsch, 2005). Across the ideological divide, social democracy is considered as ‘selling out’ and dogmatists from the Marxist camp consider it to be an abandonment of the primary goal of the movement. The dogmatic Marxism is well represented by the words of Rosa Luxemburg (1898) when she argued that, “... no medicinal herbs can grow in the dirt of capitalist society which can help cure capitalist anarchy” (quoted in Geras, 1973: 17). On the contrary, as evidence has shown throughout the 20<sup>th</sup> century, revolutionary socialism is difficult to attain and neither does it emerge from the wreckage of capitalism. No wonder Bernstein had to cross the ideological divide in his approach as argued:

I frankly admit that I have extraordinarily little feeling for or interest in what is usually termed the final goal of socialism. This goal whatever it may be is nothing to me but the movement is everything (Bernstein, 1898 quoted in Tudor and Tudor, 1988: 192).

...universal suffrage is only a part of democracy; although a part which in time must draw the other parts after it as the magnet attracts to itself the scattered portions of iron. It certainly proceeds more slowly than many would wish, but in spite of that it is at work. And social democracy cannot further this work better than by taking its stand unreservedly on the theory of democracy – on the ground of universal suffrage with all the consequences resulting therefrom to its tactics (Bernstein, 1899 quoted in Beech, 2006:22).

It is clear that Bernstein had abandoned dogmatic Marxism and became the champion of democratic socialism which he believed to be evolutionary rather than revolutionary. Thus democratic institutions were very crucial to him as a means to the end and there was nothing sacrosanct about the means – thus strengthening the primacy of politics, principles of reform, and compromise (Tudor and Tudor, 1988). Non-violent popular pressure channelled through democratic institutions, according to him, had potential to achieve extraordinary outcomes which were not simply window dressing. In other words, Bernstein had come to realise that the tendency of capitalism to tear itself apart (Marxism) was equally balanced by similar tendency to pull itself together (Tudor and Tudor, 1988). This supports Polanyi's double movement which only allows the system to be on a precarious balance. The adoption of democratic reforms should not be the end, as have been the case of celebrating 'mere' liberal democracy, but reforms of the capitalistic system should be beyond 'window dressing'. This is however difficult as Harvey (2003) argued:

...the turn to a liberal form of imperialism (and one that had attached to it an ideology of progress and of a civilizing mission) resulted not from absolute economic imperatives but from the political unwillingness of the bourgeoisie to give up on any of its privileges...(Harvey, 2003:126).

This clearly shows the primacy of politics in displacing the system as a whole because the landed elites with vested interests will prefer the status quo and less radical 'reforms' are done locally and through what Harvey called 'Spatio-temporal fix'<sup>12</sup>. In other words, Harvey's argument is that Joseph Chamberlain ('Radical Joe' as he was known) turned into imperialism because the path to domestic reforms was blocked (Harvey, 2003). All the reforms done in the capitalistic system such as the establishment of the welfare state, universal education and health care in many countries

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<sup>12</sup> The spatio-temporal 'fix' refers to the solution of over-accumulation in a capitalistic system where the crisis is dealt with through temporal deferral and geographical expansion – epitomised through imperialism (Harvey, 2003)

represent how political democracy should be seen as a window of opportunity for real dividends to the society. Esping-Andersen (2010) argued that for Swedish social democracy, equality was enhanced without plundering the wealth of the bourgeoisie – hence the title of his article ‘*Equality with a happy bourgeoisie*’. This clearly shows, considering the failure of the revolutionary agenda, that reformism is not a hopeless approach given its achievements in the Scandinavian countries.

Social democratic countries have represented Bernstein’s view on evolutionary socialism well and it is interesting how countries such as Sweden retained neoclassical<sup>13</sup> free market economy attributes in its fiscal regime. This was mainly because of the use of Keynesian welfare policies and active labour market policies which allowed competitiveness of labour market system through training and retraining of the unemployed people. Social democracy (SD), as a third ideology, has not been enthusiastically embraced across the ideological divide even more worryingly from the left despite representing significant strides towards socialism.

### **2.5.2 Why Social Democracy is not simply ‘selling out’.**

From the view point of both orthodox Marxism and neoclassical economics, social democrats are regarded as ‘sell outs’ and that they are no longer true to the primary values underpinning both theories. It is important to have comparative reflections on Sweden and the US as they portray the values underpinning social democracy and neo-classical economics respectively. The comparative reflections done here will also illuminate the South African case in the latter chapters. Swenson (2002) argued:

The Swedish government also enjoys, or suffers, a reputation as a vanguard among welfare states. It is hardly surpassed in the generosity of its monetary benefits and supply of services for people needing them because of childbearing, child rearing, unemployment, sickness, disability, and old age. America, by contrast, stands out among affluent capitalist societies with its highly unequal distribution of pay and benefits, including private health insurance, attached to gainful employment (Swenson, 2002:3).

The stark difference between the USA and Swedish systems is a good illustration of differences in welfare regimes that those from the left and right ideological divide should acknowledge. The generosity of the welfare state in Sweden was not simply money to the people as imputed by many

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<sup>13</sup> Ohlin (2013: 32) emphasised this notion that the Swedish social democratic system did not entail fiscal profligacy by arguing that, “Financial traditions in Sweden are rather orthodox and strict. Borrowing was used only for productive purposes which were expected to yield the State sufficient profit to cover interest charges.”

liberals but the welfare state was a comprehensive system dealing with skills improvement, labour market activation programs, unemployment and supply of social services such as child care, disability and old people support (Esping-Andersen, 2010). Interestingly, the hegemonic refutation of social democracy only dismisses the *digiriste* aspect of the system on the basis of ideology and as a result it shuns a thorough analysis of how the system worked (Hirsch, 2005).

The US's New Deal in the mid-1930s was a significant stride towards the American social democracy but the default structure of the American economy was inimical to further entrenchment of New Deal type of policies. Having ignited the idea of a broader welfare regime, the US system failed to sustain that path due to its internal problems mainly in its politics. Politically, "America remained a federal and presidential system with weak parties, strong committees in a bicameral legislature, Senate filibusters, and an independent Supreme Court exercising power of judicial review." (Swenson, 2002:6). This entails that any reforms towards egalitarianism "...lose energy and cohesiveness as they scrape and fracture on the rough terrain (the "veto points") spread out across this vast country's complex political system" (Swenson, 2002: 4). In Lazare's view, "More specifically, it has to do with the same Constitution and Bill of Rights that Clinton finds so sacred, both with the document itself and the religious aura surrounding it; the cult of the Constitution is the basis of America's solipsistic political culture" (Lazare, 1998: 8). It is difficult in such a 'trapped' political environment to bring radical policy ideas and even the New Deal arguably gained traction when the constitution was in abeyance to enable policymakers to deal with the consequences of the Great Depression. This explains why the Swedish social democratic system, once it gathered momentum in the 1940s, managed to overtake the American system on the left.

The US political system is different from the Swedish system which remained a relatively centralised parliamentary system characterised by strong parties and as a result the Swedish political terrain had a limited number of 'veto points' (Swenson, 2002). This political difference between the Swedish system and the US entailed that welfare reforms were more consolidated, with less opposition, in Sweden than in the US. The alliance between the state, employers' organizations and unions also helped to nurture a higher level of tolerance for grassroots participatory democracy in Sweden with immediate outcomes, through the welfare state's benefits to ordinary citizens (Esping-Andersen, 2010). The contrast between the US and the Swedish system reflects that in liberal democracy (US) political alliance is difficult to form whereas in social democracy (Sweden)

alliances for developmental purposes are easier to forge. This is so because the principle of compromise is available in social democratic system to an extent of changing the structure of the economy if necessary. This is in direct contrast to liberal democracy in which compromise is regarded as unconstitutional – as observed with the US New Deal policy resistance.

### *The welfare state as a cornerstone of social democracy*

Most writers on the subject (*the welfare state*), whether on the right or left politically, take it to mean a more positive and purposeful commitment by government to concern itself with the general welfare of the whole community (Titmuss, 1964:29).

It is therefore surprising how, for instance, the South African government has imputed a negative connotation on the welfare state. Such disapproval of the welfare state is also underpinned by lack of understanding of particular welfare regimes and their dynamics in bringing equity and unity among citizens. Esping-Andersen (1990: 20) argued that “Social scientists have been too quick to accept nations’ self-proclaimed welfare-state status and have been too quick to conclude that if the standard social programs have been introduced, the welfare state has been born”. Surely a welfare state that satisfies more than simple basic minimal needs is much desirable and cannot be the same as the one that only offer minimal welfare (Esping-Andersen 1990:19).

Welfare production is done through the state, market and family pillars (Esping- Andersen, 2002b). These three pillars inform the welfare regime of a nation depending on which pillar is given more responsibility in welfare production and most importantly by the nature of interconnectedness of these pillars. Worth highlighting here are two major regimes namely the liberal and social democratic welfare regimes (Esping-Andersen, 1990 & 2002b).

### *The Liberal welfare regime*

The ideals of liberalism have, as a feature, the maximization of the free market with small to no state intervention save for purposes of maintaining this free market (Esping-Andersen, 1990). This approach to social policy presumes that all people can participate in the market and this induces competition which obviously entails winners and losers. The major ingredients of the liberal welfare

regime are low de-commodification<sup>14</sup> of labour, work ethic stigma, means tested assistance, market sovereignty, ‘residualism’ and crisis driven intervention towards social disasters such as extreme poverty (Esping-Andersen, 2002a:74). Existing liberals recognise the ‘dilemmas of labour commodification’ via minimal social policies awarded through means testing and prior contribution (Esping-Andersen, 1990: 42). Bernard and Boucher (2007) refer to a ‘transfer welfare state<sup>15</sup>’ which has large but passive benefits such as old age pensions and unemployment protection. This system is the ‘residualist’ liberal welfare regime which forgoes social services provision which the passive transfers cannot meet. A critical downside of the liberal system is the social stratification it creates on the basis of income and wealth. This entails a permanent reproduction of the middle class, working class and the underclass – what Esping Andersen (2002:9b) called a ‘post-industrial class abyss’.

### *The Social democratic welfare regime*

Directly opposite to the liberal welfare regime, the social democratic welfare regime’s key ingredients are high equality, universalism of high standards, state support, high benefits, high de-commodification of labour, full employment and the middle class are wooed from market to the state (Esping-Andersen, 2002:76a). The main worry is not to wait until the family is unable to provide further, but “to pre-emptively socialise the costs of family-hood” (Esping-Andersen, 1990:26). The social democratic welfare regime addresses both the market and traditional family and this is a straight contrast to the liberal approach that assumes the family is a constant variable. The de-commodification of labour is a main concern and is achieved by universal and broad welfare policies with the fundamental idea that “All benefit; all are dependent; and all will presumably feel obliged to pay” (Esping -Andersen, 1990: 28).

Swenson (2002) argued that social democratic regime is not about de-commodification and universalism only but the adequacy of the unemployment benefits welfare payments. In other words, Swenson’s point is that the de-commodification of welfare (health, education, unemployment

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<sup>14</sup> De-commodification entails that workers are separated from the labour market for survival hence associated with unemployment benefits and under liberal welfare regime labour is highly commoditised; no work no income and people often stick to their jobs to maintain their income.

<sup>15</sup> Bernard and Boucher (2007:224) argued that countries in such liberal system are, “...are often stuck with rather generous, albeit often passive welfare measures: compensation for unemployment and long-term unemployment, old age pensions, and retirement benefits paid to workers who have had to retire early. The participation rate is low, and threatens the fiscal ability of these countries to sustain their welfare measures.”

benefits) enhanced the labour market to functional neo-classically without the need of welfare capitalism since welfare of workers was met by the welfare state. According to Arts and Gelissen (2002: 143), “Social policy within this type of welfare state is aimed at maximization of capacities for individual independence.” Instead of accepting dualism between state and market, working class and middle class, social democracy allows equality of high standards rather than equality of basic needs as in the liberal regime (Esping-Anderson, 1990:26). Esping-Andersen (2006) is worth quoting at length:

Rather than tolerate a dualism between state and market, between working class and middle class, the social democrats pursued a welfare state that would promote an equality of the highest standards, not an equality of minimal needs as was pursued elsewhere. This implied, first, that services and benefits are upgraded to levels commensurate with even the most discriminating tastes of the new middle classes; and, second, that equality be furnished by guaranteeing workers full participation in the quality of rights enjoyed by the better-off (Esping-Andersen, 2006:168).

Social rights of citizenship are thus adequately addressed by the social democratic welfare regime compared to the ‘residualist’ liberal welfare regime which reduces social citizenship rights to charity (Adesina, 2010). The unions continuously seek recognition because in liberal welfare regimes, once one loses a job there is no recourse to unemployment benefits – especially in the current era of high precariousness of jobs. The social democratic welfare regime thus is important in its ability to be functionally connected to other important policy areas such as active labour market policies.

#### *The social democratic labour market policies and skills regime*

Centralised bargaining system in Sweden led to the achievement of an ‘across the industry’ establishment of egalitarian wages and the employers managed to organise and support these egalitarian wages (Swenson, 2002). This had an effect of industry wide consensus on standards of employment, wages, training with employment and unemployment protection unlike the US system which remained fragmented and segmented. Swenson argued that:

Solidaristic employers may therefore seek to regulate or collectivize training. They may impose obligations on each other to spend a certain amount on training, or keep some percentage of their workforce in apprenticeships (Swenson, 2002: 34).

True to the coordinated economies, the employers’ efforts were met with the state’s activation programs which incentivised those without jobs to go for training as a precondition for receiving

unemployment benefits. This seems to be similar to the Japanese approach to skills development but the social democratic system is premised on democracy and centralised bargaining system. The organization of the Swedish social democratic welfare state was done in such a way that the benefits were only made available with complementary services to enable citizens to participate in the economy. So even the welfare state's 'de-commodification' of labour policies does not imply the often referenced prejudices of creating laziness and dependence because of the attendant active labour market policies. Ohlin (1935) specifically argued that the municipalities require that those receiving state support in terms of unemployment are supposed to work two days per week to show their willingness to work otherwise the benefits will be withdrawn.

The foregoing argument shows the pragmatism of the Swedish social democracy which many critics may not want to acknowledge. The social democratic system does not focus merely on income poverty but goes to the issues of capability enhancing thus the system is in line with what Sen (1990) was saying when he argued:

While it is important to distinguish conceptually the notion of poverty as capability inadequacy from that of poverty as lowness of income, the two perspectives cannot but be related, since income is such an important means to capabilities. We would also expect a connection going from capability improvement to greater earning power and not only the other way around (Sen, 1990:90).

The above is in stark contrast to the liberal welfare regime such as in the American system which tends to limit welfare interventions to cash transfers to the ultra-poor. The cash transfers in the liberal system would not be enough for the capacity enhancing and independence as discussed above instead it only serves to perpetuate the 'post-industrial class abyss' (Esping Andersen, 2002b). Once this abyss is created, the system entrenches itself and the richer class will impede any radical reforms towards a more social democratic welfare state. This entails that the aim of the welfare state /social policy should be the capabilities of the citizenry. Such a focus will have a long term effect to the lives of the marginalised rather than focusing on how many more dollars can be given to poor families for them to move to other side of poverty line – poverty line thinking. The 'dollar-per day' approach is the one that brings the notion of 'social transfers create indolence' because without complementary social services to poor communities, just going above the poverty line will not suffice.



The Swedish social democracy approximates Evans's 21<sup>st</sup> century development logic in which he emphasises that the heavy industry and manufacturing was the 20<sup>th</sup> century panacea of growth but *capabilities* should be at the forefront in the present era of 'tertiarisation' and obsolescence of skills (Evans, 2010). Thus for Evans, the search for 21<sup>st</sup> century underdevelopment solutions should not be 'blind' of the changing nature of modern economies towards service and knowledge intensive economies (see also Bosch and Lehndorff, 2005). The *New growth theory*, *Institutional approach* and *Capability approach*, according to Evans (2010), represent different theoretical basis but they converge on the same outcome – which is the need to build individual capabilities.

#### *Social democratic dialogue/compact*

Unions, in the Swedish social democratic system, managed to acquiesce to the demands of employer organizations because of the availability of the generous welfare regime which meant loss of job would not result in destitution. This constituted the key characteristic of the social democratic compromise which was made possible by the comprehensive welfare state which won the trust of labour. Labour, as a result, was not merely surrendering to the demands of firms and demands of the state because there was a sense of real compromise between the state, employer organization and union movement – premised on the environment of political equality between partners. In addition, both the employer organizations and the state were also important in the formation of the deep social democratic compromise as Swenson (2002) argued:

Some of the most astonishing evidence shows that the Swedish Employers' Confederation was remarkably eager to create a more level structure of wages across firms and industries, well before the unions unified behind a "solidaristic wage policy" in the 1950s onward... (Swenson, 2002: 7).

Left-wing welfare state builders in Sweden took into account, sometimes begrudgingly and sometimes wholeheartedly, what employers deemed necessary in their market interests (Swenson, 2002:300).

The Swedish social democratic dialogue was unique in its employer organization which managed to bring a unified voice from the employers as compared to segmented systems in liberal economies such as Ireland and United states. The impact this had on the structure of wages in Sweden helps to debunk the myth that in capitalist economies, the reforms can only be 'light touch' without unravelling the structure. Like in any other dialogue, this was not smooth but all social partners realised what had to be done in order to sustain the system. This was complemented by the system of

parliamentary democracy and strong political parties which was absent in the US system. A clear difference is present from the social compacts achieved in Sweden than other liberal economies such as Ireland which tended to victimise labour without adequate protection from the welfare state as happened in the case of Sweden. Since its 1987 crisis, Ireland started a series of social dialogues/compacts in which unions, employers and the state negotiated compromises for the country to move out of crisis. Murphy (2012) argued that the Irish compacts later turned out to be mere crisis management negotiations rather than an entrenched culture of democratic dialogue and this resulted in organizational weakening of unions. This was done while the Irish economy remained purely a liberal market economy with more power in the state and the multinational corporations (Baccaro and Simoni, 2004).

For Swedish labour, the sacrifices of low egalitarian wages were realised in unemployment protection but in liberal systems labour is expected to acquiesce to the demands of capital with neither universal unemployment benefits nor activation programs. Similar achievement of democratic compromise are difficult to attain in the absence of trust enhancing attitude towards labour seen in Sweden through training, employment protection all backed by the state's active labour market policies. In other words acquiescence is difficult to obtain in what Locke (2005) called the 'hire-and-fire' labour market systems in which labour does not trust that any initiative by employers is beneficial .

## 2.6 Conclusion

This chapter has dealt with theoretical issues and some comparative reflections on the iconic countries from which theory is often distilled. Using the Keynes, Polanyi and reflecting on Marxism, the laissez fair capitalism was refuted and the logic of state intervention was established. This chapter also acknowledged the fact that neoclassical narratives on the history of economic thought often dominate other narratives on alternative systems in which the state successfully intervened in the economy. After accepting the imperative of state intervention it was however established that the interpretations of the exact nature of the role of the state in various state coordinated systems was flawed. The Asian developmental state model fared reasonably well ideologically compared to the social democratic system probably because of its inclination to the theme of 'developmentalism'.

The theme of ‘developmentalism’ did not only appeal to the developing countries in their search for a viable catch-up model but also captured the attention of the developed nations as they faced slow economic growth (see the World Bank’s 2008 growth commission for example).

The enthusiasm for development which led to the wider appeal of the developmental state model in developing countries is however devoid of thorough retrospection thus leading to the DS merely becoming a buzzword (Burger, 2013). The argument goes even further to question whether the 20<sup>th</sup> century typical DS is the desirable model of development given that it was developed within a context of authoritarianism, the era of traditional industries/mass production and more importantly that it was informed by geopolitics of the Cold War. This led to the logic of social democratic systems not only for their embrace of ‘beyond-election’ democracy but for the attendant capability-centric regime achieved through active labour market policies and social services. The 21<sup>st</sup> century, gravitating towards ‘tertiarisation’ of the world economy, requires focus to be placed on human capability enhancement which will also help to build the relevant 21<sup>st</sup> century human capital. Morel *et al.* (2012) argued that social investment perspective underpinned the Lisbon Agenda of the EU which aimed at making Europe:

...the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment (Morel *et al.*, 2012:2).

## CHAPTER 3 THE BIRTH OF SOUTH AFRICAN DEMOCRACY: COMPETING IDEAS OVER THE TYPE OF STATE WHICH WOULD OVERCOME THE LEGACIES OF APARTHEID

### 3.1 Introduction

Many policies are developed in political parties and alliances, especially when they are out of power, only to be forgotten when the party takes power. Sometimes this is deliberate fraud; other times it is a result of political factors entering into Cabinet appointments that shift the direction of policy for the relevant portfolio (Hirsch, 2005: 62).

The global economic crisis of the 1970s was a painful reality for many of the world's economies – whether developed or not; politically democratic or not – and South Africa was not an exception especially as the economy has historically relied mainly on gold exports. The collapse of the Bretton Woods system in 1973 and the rise of oil as a key global commodity had profound consequences for the South African economy because the gold standard, which had always guaranteed an inelastic demand for South Africa's gold, was no longer in place. As acknowledged by the ANC (1992) in its *Ready to Govern* document and Legassick (2007: 05), from 6% in 1960s, economic growth dropped to 1.9% in 1970s and just 1.1% in early 1990s; unemployment rose from 12% in 1970 to 25% in early 1990s<sup>16</sup>.

The economic crisis aside, the incumbent South African National Party (NP) government faced a huge political challenge as the level of 'ungovernability' of the oppressed South African majority worsened from the mid-1970s. The highly entrenched unequal society – "...sustained by slavery and serfdom for 250 years; repressive and discriminatory labour system for 100 years." – made political dissent an unavoidable outcome (Terreblanche, 2002: 14). For instance unions were increasingly becoming militant and the 1976 uprising in Soweto and elsewhere aggravated the economic and social plague that South Africa was immersed in.

The South African transition into democracy took place in the context of economic crisis and a political stalemate in the fight against apartheid. Despite the euphoria of imminent political victory

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<sup>16</sup> The Industrial Strategy Project report (1994) also concurred, arguing that in manufacturing, employment was the same in 1992 as it was in 1980 and was falling rapidly, manufacturing investment was falling dramatically (capital stock growing at 2% compared to 8% of South Africa's competitors) and poor quality products which could not meet international standards.

during the early 1990s after the unbanning of political parties and the release of Nelson Mandela, the ANC and its liberation movement partners soon realised that they had to also deal with economic and social policies once they won the elections. The ability of coming up with coherent and credible policies by the ANC and its alliance partners was weakened given that they were not fighting a government which was ready to surrender its political and economic power (Freund, 2013b). Businesses and the incumbent NP government were willing only to make limited concessions and dreaded any radical policy proposal from the incoming government – especially the Freedom Charter’s nationalization.

Economically, the policies of the ANC revolved around *dirigisme* since this was believed to be the most tenable way to allow the incoming ANC government to have the autonomy to control resources and implement various social projects in favour of the majority. The Asian ‘developmental state’ (DS) model thus seemed to be a sensible option given its high economic growth attributes which South Africa was desperately in need of during the transition period. It was however not clear how the policies of the DS would be reconciled with redistributive ethos of social democratic principles visibly pursued by the ANC since the 1940s (Van Niekerk, 2013). The conventional ANC economists – especially those who had been in exile – were arguing for the modern liberal economy practices pointing for instance to the ‘collapse’ of Soviet Union and the notion that social democracies were bankrupt (Turok, 2008). The type of state which would be effective in undoing the legacies of the past was subject to contestation as revealed in chapter one. Arguably, the policy uncertainty among the ANC and its alliance partners such as SACP and COSATU was demonstrated by vacillations in policy proposals during the transition period. While the negotiations were taking place at CODESA, the ANC and its alliance partners were also in the processes of ‘soul-searching’ to find out how they would be relevant in the new democratic era (Plaut, 2012).

This chapter is aimed at exploring the early period of policymaking from the transition period (when the ANC was unbanned) and early years of post-apartheid South African economic trajectory up to the end of Mbeki’s presidency. Particular attention will be given to interventionist economic growth alternatives available during this period focusing mainly on the developmental state and social democratic state. The first section will explore the challenges the incoming government experienced in ascertaining its people-centred approach to policymaking. This will be done with a particular reference to the developmental state and social democratic state as immediate alternatives to the

incoming government. This will be followed with the discussions on the ascendancy of orthodox thought and the abandonment of the ‘growth through redistribution’ and social democratic principles which seemed to circulate in the thinking of the ANC led alliance and various progressive movements. The final section will explore the social compacting which was espoused through the formation of NEDLAC as an institutionalised platform for consensus building and policy consultative processes.

### **3.2 The Transition into Democracy and new Challenges on the Policy front: the primacy of ideology.**

As explained above and as Turok (2008: 44) acknowledged, the South African transition was “located in a unipolar world” with the global economy dealing with the supposed ‘crisis’ of Keynesian welfare state ideas elaborated in chapter two. As argued by Hirsch (2005:35), when the ANC went underground, there was no support from liberals and business community other than Scandinavia, independent African countries and Eastern Europe and thus this caused the “pigeon-holing of the ANC into a socialist box”. Realistically, confronting the conventional wisdom is not easy and during the transition, it was aggravated by the fact that the ANC alliance was not – on its economic and social policy front – a solidly united camp and was inexperienced in governance and policy work. The South African transition was defined not only by the ANC led alliance but much of what shaped the transition process and policy negotiations on social and economic front was – according to Peet (2002)’s terminology – the Academic-Institutional-Media (AIM) complexes. The institutions involved included the World Bank, the IMF<sup>17</sup> and local institutions such as the South African Foundation (SAF) which, with financial backing and technical expertise, helped to strengthen the hegemonic discourse’s influence on post-apartheid South Africa. The objective conditions such as government debt and slow economic growth cannot be ignored but equally important were hegemonic ideas which seemed to dominate policy processes during the time subverting the all choices available to the ANC. Thus the post-apartheid era has been according to Peet (2002) a victim of how power, ideology and hegemonic discourse is disseminated through policy prescriptions, press releases position papers, commentaries, reports, books and articles from the AIM complexes. Gelb (2010) made an interesting observation which is also related to the AIM

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<sup>17</sup> Padayachee (1997) argued rather that in most developing nations where the IMF and the World Bank had direct influence in policies through loan conditionality, in South Africa, it was a case of moral suasion over the direction of ANC economic policy. Terreblanche (2012:64) also argued that the IMF loan came with a statement on economic policies which were in fact GEAR in an embryo form.

complexes taking over local policy space in South Africa as he argued that the implicit assumption was that South Africa needed FDI and policy approval from international community was necessary.

Implicitly, the early 1990s were characterised by a general inclination to orthodox thinking due to world economy's globalization which meant countries had to adhere to international policy standards. Even in the recent times (post 2005), the AIM complex's 'watchdogs' such as credit rating agencies also continue to monitor the policy processes, and they are ready to 'warn' policymakers for taking any unconventional path. These agencies are often ideological 'gate keepers' meant to make sure that international 'good' practices are not evaded. For instance in build-up to the 2008 financial crisis, they even gave triple-A ratings to securities with high level of subprime debt in them (Skidelsky, 2010: 25).

There was a strong affinity for a neoliberal package with emphasis put on attracting FDI, budget containment, property rights and containing inflation (Nattrass, 1994). Once this was portrayed as essential, real debate for policy did not happen since ideology was 'legitimised' by objective conditions. With Fukuyama (1989) declaring 'the end of history' (also basing some of his arguments on the 'collapse' of the Berlin wall, the Soviet Bloc etc.) and incessant voices from IFIs and WTO advocating for the liberalization of trade and capital accounts convertibility, state intervention became demonised. The widespread assumption (e.g. Nattrass, 1994) was that the economy needed FDI above all things.

In the negotiations of equals, what could have emerged is a compromise between right wing fears and left wing aspirations but the outcomes of the negotiations were pro-business— actually pro-white owned capital – which already owned the means of production and economic power since the formation of the Union of South Africa (Terreblanche, 2002). Ironically Ashman *et al.* (2010) argued, contrary to Nattrass's point above, that what actually happened is that during late apartheid, South African capital 'escaped' the country. This happened at the time when many believed that liberalizing the economy would attract investors.

The absence of a proper debate on economic policies was mainly caused by a lack of cohesiveness in the ANC led alliance. The right did seem willing to give concessions on economic policy but the lack of cohesiveness in the alliance gave them an impression that they did not have to (Ashman *et al.*, 2010). Plaut and Holden (2012) argued that soon after the election victory and inauguration of

the new democratic government, many problems in the ANC led alliance had resurfaced especially on economic policy. The political freedom aspiration had been a unanimous goal of all the alliance partners but once political victory was imminent, inherent defining attributes of each alliance partner were soon to bedevil social and economic policymaking (further discussed in chapter 5). A serious ‘soul searching’ was also going on within each alliance partner as they sought how they were going to maintain their relevance in the democratic dispensation. Such differences between the alliance partners also weakened the coherence and credibility of economic and social policies of the anti-apartheid camp and it was easy for the incumbent government to push its free market agendas especially with the right wing section of the alliance in support. After giving the above general picture it is worthwhile to turning to specifics and in particular trying to identify whether there was any developmental state leaning or how state intervention was being espoused in the incoming government.

### **3.3 Breaking the mould: the formation of a developmental state?**

In the *Ready to Govern* document, the predilection of the incoming government to use greater state intervention along the Asian DS route was evident as the document attested:

The democratic state will have ultimate responsibility - in cooperation with the trade union movement, business and other organs of civil society - for coordinating, planning and guiding the development of the economy towards a sustainable economic growth pattern... We envisage that such a developmental state will, in consultation with the organs of civil society, especially at local level, have primary responsibility for responding to the basic needs of the population in the areas of health care, education and basic social security (ANC, 1992: 14).

Without exaggerating, one would argue that the reference by the ANC to the DS was an attempt to form a state with control of the economy and use the apparatus of the state to deliver economic growth for its people. It was difficult however to sell this idea to a business-sector linked ‘right wing’ and within the ANC led alliance who were cynical about anything that had to do with the state assuming a greater role in the economy (Plaut, 2012).

In an attempt to become pragmatic on the economic policy front, the MERG was assigned with a task to come up with a macroeconomic framework for the government in waiting. At least the assignment of the group signalled a much more coherent rather than an abstract socialist rhetoric approach to economic policy-making, and was a more credible group to accompany the incoming progressive government which had weak credibility on policy-making. In its report *Making*



*Democracy Work*, there was a careful interventionist approach to economic policy and it is in this document in which DS was more pronounced. Clearly, the MERG framework was not an orthodox driven approach but was also careful not to slide into socialistic rhetoric. The MERG argued that:

The machinery of the government in addition to being democratic, with strong mechanism of accountability and transparency, must serve the purpose of the developmental state. [...] The developmental state itself should avoid absorbing high level of resources for its own functioning but should be a slim state (unlike the present state) disciplined by mechanisms which provide incentives for efficiency and monitoring performance (MERG, 1993: 16-17).

An interesting feature in the MERG report is the fact that whenever the term DS or simply ‘state’ is mentioned in terms of its role in the economy, it is in most cases accompanied by the word ‘slim’ for instance it appears on pages; 17, 266, 267 and 273. The ‘slim state’ emphasis also reveals the notion as acknowledged by Weeks (1999) that the MERG advocated for a prudent expansionist fiscal policy. This shows that the MERG had accepted that the post-apartheid South Africa had to become an efficient DS after the Asian style save for authoritarianism<sup>18</sup>. On redistribution, the MERG was not that apologetic to right wing ideologies; it rather considered the historic injustices to be too profound to be fixed with the market economy mechanism alone. It argued that:

In South Africa a key determinant of people’s living standards, bargaining power and economic opportunities is their access to land and MERG argues that the democratic government should take immediate action towards land redistribution. Privatization should be decided upon on a case by case basis to maximize the outcome for the public good... In rural areas, the MERG proposes that the state intervenes to redistribute land within a short period of time to the benefit of adult female members of landless households in the rural homelands (MERG, 1993: 273).

Given the fact that South Africa was emerging from apartheid and was one of the most unequal countries in world, the MERG proposals were not sufficiently radical to warrant rejection by the incoming government (Freund, 2013b). For instance the case of land being distributed to adult female members of rural landless people was supported as a workable selective approach to deal with the legacy of the past (Padayachee, 1997; Nattrass, 1994). This was in line with the Asian DS, as revealed in chapter 2, which redistributed land prior to the launching of the DS projects. The MERG’s advice on the land issue thus was relevant in that regard. Padayachee (1997:47)

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<sup>18</sup> The COSATU-linked ISP report also portrayed a central role for the state in structuring the manufacturing sector and industrial policy in general and to some extent, without professing it, the ISP just like the MERG, advocated for a developmental state in the post- apartheid South Africa.

retrospectively argued that the MERG report was substantial and probably the only reasonable framework from the ANC. This is supported by a sense of convergence around the MERG report as some liberals such as Natrass (1994) who also agreed that the MERG report had some cautious and balanced suggestions. This illustrates, as observed by Peet, that ideological colonization is aptly captured by the rejection of the MERG framework despite the emerging consensus concerning MERG as an economically sound framework. MERG, as a reasonable counterhegemonic framework, was simply side-swiped without debate on its feasibility (Freund 2013b, Padayachee, 1997).

When the MERG framework was rejected; the ANC led alliance, NGOs and research organizations formed the Reconstruction and Development Program (RDP) in 1994 (ANC, 1994a). The RDP encompassed major ideological differences within the alliance and this compromise was important in bringing the needed consensus on nation building and social cohesion which the incoming government sought to achieve. The RDP was a by-product not of deeper conceptualization (Freund, 2010) but of people who realistically thought of putting aside sophisticated macroeconomic modelling and ‘statistical quibbling’ to adopt a ‘basic needs approach’ to economic and social policy. The approach was heuristic and simple because the incoming government only needed to look at basic living conditions such as access to food, clean water, electricity and basic education among others – which were obvious legacies of apartheid and needed no serious diagnosis. In the preface section of the document, Mandela stated:

...in 1994 we are about to assume the responsibilities of government and must go beyond the Charter to an actual programme of government. This RDP document is a vital step in that process. It represents a framework that is coherent, viable and has widespread support. The RDP was not drawn up by experts - although many, many experts have participated in that process - but by the very people that will be part of its implementation. It is a product of consultation, debate and reflection on what we need and what is possible (ANC, 1994a).

Arguably, the ready acceptance of the RDP – compared to the unjustifiable rejection of the MERG framework – may lie in the fact that it was more grassroots oriented and the alliance partners participated in the RDP process unlike the MERG which was done by ‘external’ experts. In fact Freund (2013b:528) argued that, “The MERG team were not linked to top ANC leadership and were therefore not consequential as a countervailing force. The leadership had nobody on the left to trust whom they considered truly their own.” Arguably, the RDP was not a ‘blueprint’ but rather was meant to provide a sense of desired direction with approval from all alliance partners without

specific details. It was reasonable for all the alliance partners to rally behind a framework which represented an acceptable direction and the RDP was the unifying factor for the landslide victory which the ANC sought for (Adler and Webster, 1999). A notable factor on the role of the state in the RDP was the complete absence of the term ‘developmental state’. The fact that the DS was muted during the RDP process was also shown by the toning down of state intervention terminology in general and acceptance of a mixed economy in the RDP document:

The fundamental principles of our economic policy are democracy, participation and development. We are convinced that neither a commandist central planning system nor an unfettered free market system can provide adequate solutions to the problems confronting us. Reconstruction and development will be achieved through the leading and enabling role of the state, a thriving private sector, and active involvement by all sectors of civil society which in combination will lead to sustainable growth (ANC, 1994a: Para 4.2.1).

Besides the absence of DS conceptualization in the RDP, radical proposals such as nationalization were not ruled out as options and a strong role for public sector investment was put forward. In other words it can be argued that the RDP was carefully written and to some extent sought to placate the ‘right wingers’ within the alliance itself and the business community but coded in the document was a state which realised the need for redistribution through an active state. The RDP acknowledged that:

The democratic government must therefore consider: increasing the public sector in strategic areas through, for example, nationalization, purchasing a shareholding in companies, establishing new public corporations or joint ventures with the private sector, and reducing the public sector in certain areas in ways that enhance efficiency, advance affirmative action and empower the historically disadvantaged, while ensuring the protection of both consumers and the rights of workers (ANC, 1994a, para 4.2.3).

The Keynesian approach was clear in the RDP document, as reflected in the above quote. The state was vital in ensuring adequate public investments, even in the form of State Owned Enterprises (SOEs), to ensure economic growth and social needs to be achieved. The aspirations of the RDP and the incoming government were not to be bogged down by emphasis on macroeconomic stability as if that were the only major area. To some extent, there was a sense that the orthodox economists tended to give up on other important goals as they focus exclusively on macroeconomic stability issues. Gelb (2006) noted that “...the RDP’s macroeconomic policy section certainly takes a clear stand against macroeconomic profligacy, as was characteristic of all ANC policy statements from 1990.”

Hirsch (2005:59) insisted that apart from few mildly dogmatic statements such as public housing bank, the RDP by and large proposed a series of practical solutions and targets.

Whether the DSP was considered to be an unnecessary conceptualization at the time by the ANC led alliance, when they formed the RDP, is not clear. What is clear in the RDP base document was the fact that the state had a huge role to play, especially on the redistributive front. This aspect reveals the fact that even though South Africa was located in the global context and should be understood that way, South African 'exceptionalism' during the transition process had to be regarded as essential. For instance the RDP is worth quoting at length:

Our history has been a bitter one dominated by colonialism, racism, apartheid, sexism and repressive labour policies. The result is that poverty and degradation exist side by side with modern cities and a developed mining, industrial and commercial infrastructure. Our income distribution is racially distorted and ranks as one of the most unequal in the world - lavish wealth and abject poverty characterize our society. The economy was built on systematically enforced racial division in every sphere of our society. Rural areas have been divided into underdeveloped Bantustans and well-developed, white-owned commercial farming areas. Towns and cities have been divided into townships without basic infrastructure for blacks and well-resourced suburbs for whites (ANC, 1994a; 2).

Simply adopting market economy principles for South Africa and assuming piecemeal intervention role for the state would be unthinkable. The need to placate global capital and the need for South Africa to be an affiliate within organizations such as WTO, GATT and other international platforms was important, but RDP arguably revealed an attempt, by the ANC led alliance, to understand the uniqueness of South African problems.

Earning the DS status, as revealed in chapter 2, was done *ex post* in Asia just like being a great musician is seen in light of one's contribution to the music industry. If an upcoming musician regard themselves as 'great musician', while it may be an imaginative exercise to 'psych them up', little may be achieved if they do not put enough effort in to do what it takes to be great musicians. Ironically, not all those who do everything it takes to be great musicians end up achieving such status. In a similar way, it is important to understand whether South Africa, during the transition, had essential features of a DS or was conducting itself in the manner of a DS. One critical ingredient of the Asian archetypes of the DS was the strong industrial policy heavily backed by the state. For South Africa, it was hard to envisage how the newly born state was to overcome its inexperience in

governance and administration in order for it to move toward becoming an effective DS<sup>19</sup>. Emulations such as the mere reference to the need to become a ‘developmental state’ were at best reflecting the ‘buzzword’ nature of the development lexicon (Cornwall, 2007). It is clear as shown above that the developmental state was explicitly and implicitly envisioned during the early 1990s but it did not constitute ‘breaking of the mould’ as seen in Asian archetypes. The next subsection turns toward industrial policy thinking of the time with added reflections on the historical industrial growth trajectory of South Africa.

### **3.4 In search of a coherent industrial policy in South Africa: A Reflection on Industrial policy history.**

As discussed in chapter 2, what constitutes an ‘industrial policy’ is the subject of much debate and its use has often been tailor-made according to specific economic challenges faced by different countries. Fine (1997: 133) argued that “Industrial policy and debate is liable to be profoundly ideological with its definitions shifting to accommodate particular policy stances from trade policy to SMMEs, thus industrial policy does not shift in response to changing circumstances but its definition is subject to change.” While some prefer narrower conceptualization, referring primarily to sector-specific targeting, others envisage a broader conceptualization that targets industrial development that serves private interest as well as the public good (Chang, 1998; Altman and Meyer, 2003).

The South African scenario differs from the Asian story and can best be defined throughout its history as trapped, until the present era, between its origin as an imperialist mineral-export enclave and an aspiration to become a fully modern industrial economy (Hart and Padayachee, 2013; Feinstein, 2005). South Africa has been trying, with failure, to shift its economic trajectory from a ‘static comparative advantage’ in minerals to become an industrialised economy with vibrant manufacturing capable of increasing value-added manufacturing exports (see Fine and Rustonjee, 1996). Fine and Rustonjee (1996: 71) argued that:

...the South African economy’s strength lies in what is termed a Minerals- Energy Complex (MEC). This includes the mining and energy sectors and a number of associated sub-sectors of manufacturing, which have constituted and continue to constitute the core site of accumulation in South African economy. By taking account of the systematic linkages

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<sup>19</sup> Chang (1998) argued that in post-apartheid South Africa, leaders were supposed to drop pro-market conventional wisdom in order to enhance their administrative capacity to develop a coherent industrial policy which would enable targeting that promoted a quicker ‘catch-up’ than to leave everything to the markets.

between these different economic activities, the direct and indirect dependence of the entire economy on the MEC is exposed.

Ashman *et al.* (2010) insisted that the South African economy still cannot escape the MEC description albeit with few changes especially on ‘financialization’.

We characterize the system of accumulation in South Africa as a ‘Minerals Energy Complex’ (MEC) where accumulation has been and remains dominated by and dependent upon a cluster of industries, heavily promoted by the state, around mining and energy - raw and semi-processed mineral products, gold, diamond, platinum and steel, coal, iron and aluminium. In the context of South African production, financialization has produced a particular combination of short-term capital inflows (accompanied by rising consumer debt largely spent on luxury items) and a massive long-term outflow of capital as major ‘domestic’ corporations have chosen offshore listing and to internationalize their operations while concentrating within South Africa on core profitable MEC sectors. The result, even before the impact of the current crisis, was a jobless form of growth and the persistence of mass poverty for the majority alongside rising living standards for a small minority, including new black elites (Ashman *et al.*, 2010:1).

The Fine and Rustonjee (1996) and Ashman *et al.* (2010) argument is relevant in capturing the MEC as the system of South African accumulation, but it does not highlight much on the historical account of the exclusive nature of industrial growth which was driven by accumulation by dispossession. Feinstein (2005) succinctly captured the characterization of the South African economy and the nature of industrialization when he argued:

The discovery of gold and diamonds in the late 19<sup>th</sup> century changed South Africa from a backward agricultural based economy into a different story with a unique combination of cheap labour, settlers and mineral resources –conquest, dispossession, discrimination and development. [...] From the formation of the union to the end of World War II, development of industrialization was characterized by inefficiency, low wages and skills differential. The manufacturing sector was mainly and continuously reliant on mining which it was supposed to replace eventually and this was not a good position (Feinstein, 2005:131 & 132).

Two major stories run in the above quote. These are the South African industrialization story, well captured in the MEC argument, which cannot be separated from the second story; accumulation by dispossession and the crisis of social reproduction (Arrighi *et al.*, 2010)<sup>20</sup>. The eventual discovery of minerals such as gold and diamonds brought the new form of marginalization of the majority within

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<sup>20</sup> Gelb (1987:39) identified that the social structure of accumulation of the post war era in South Africa has been characterised by a combination of ISI and apartheid in a manner involving the “...linking of the extension of mass production with the extension of mass consumption but in a manner that was restricted on both sides of the equation...” This is what Gelb also referred to as racial Fordism.

the emerging MEC (Bundy, 1972; Feinstein, 2005). In the post-apartheid era, its reincarnation could be envisaged as a dual economy with a first and a second economy resonance<sup>21</sup>.

The strong dual economic system was institutionalised in the early 20<sup>th</sup> century within the context of segregation and later in the form of the apartheid system under the banner of import substitution industrialization (ISI). Like other developing countries, South Africa also understood and adopted the ISI approach. For instance, the Tariff Act of 1925 imposed tariff rates ranging from 20% to 25% to protect local firms and to allow them to gradually develop without having to face external competition (Legassick, 2007)<sup>22</sup>. This was partly a response to the Rand rebellion. Hertzog was also reacting to the power of 'English capital' and he was also trying to solve the 'poor white problem' by these protective measures (Davenport and Saunders, 2000).

Arrighi *et al.* (2010: 424) characterised South African economic history in this period as a "racially exclusive combination of welfare and a developmental state". The state was active in promoting the welfare state, which was to the benefit of white minority until towards the end of the apartheid when welfare benefits were extended to coloured and Indian people (Lund, 2008). As a developmental state, the ISI was the key strategy of the successive governments. However it was based on cheap black labour and biased towards white skilled labour which enjoyed many privileges within the economy. This racially exclusive welfare and developmental state allowed the crisis of social reproduction to become entrenched (Arrighi *et al.*, 2010).

Freund (2013a) argued that the South African economy under white rule in the 1940s was a very good example of a DS and was quite successful by the standard of that time. The historical DS notion helps to strengthen the notion that during the 1940s, the state had a relatively sound industrial policy along the Latin American ISI strategy. This shows that the DS cannot be envisioned without a deliberate industrial policy action by the state which seeks to nurture and coordinate the activities of domestic firms from infancy to maturity level. Freund argued that:

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<sup>21</sup> According to TIPS in its *Second Economy Strategy* (2009), "South Africa has a highly unequal economy in which people with access to wealth experience South Africa as a developed modern economy, while the poorest still struggle to access even the most basic services. The differences in conditions between the two are so stark they appear to be worlds apart – giving the notion of 'two economies' resonance."

<sup>22</sup> Nattrass (1994) argued that the ISI strategy generated growth in South Africa 'behind the tariff barriers', but it also generated uncompetitive manufacturing sectors which absorbed rather than produced foreign exchange.

By the 1940s it is possible to apply the developmental state concept to state and economy in the Union of South Africa. The Industrial Development Corporation was created in 1940 in order to assist new business activities as well as promote the expansion, better organization and modernization of existing firms (Freund, 2013a: 93).

The DS in the 1940s thus was centred on conscious decisions by the state, just like in the Asian model, to intervene strategically, and in South Africa all the necessary building blocks of the modern economy were established to a greater extent by the state during that time period. Freund however does not give an assessment of institutions such as the Industrial Development Corporation (IDC) and this is crucial because most countries have what they call ‘development finance’ institutions but their functionality and success varies from country to country (Spratt, 2009). A lack of focus on development finance, contrary to what was seen in successful Asian countries, is what keeps South African long term development projects lagging behind other developing nations such as Brazil (see Lazzarini *et al.*, 2011).

The lack of thrust on development finance also contributed to the marginalization of agriculture in most developing countries as finance is channelled mainly to urban centres (Bezemer and Heady, 2008). In the 1950s and 60s, the government increased its economic role not only in mining but also in the manufacturing and in agricultural sectors. For instance, the state initiated large scale commercial farming of wheat and corn and by 1970 agriculture and manufacturing exceeded that of mining in terms of output (Byrness, 1997). Typical of Asian DS, Freund (2013a) argued that Smuts, having participated in war planning throughout his life, understood how to position institutions and colleagues strategically to allow effective coordination of policies. For instance, the Social and Economic Planning Council, formed in 1942, had no economists which can also be related to institutions in Asian DS model whose technocrats were often employed based on whether they could get the job done – competent bureaucracy. This active planning is crucial for a DS as seen in the case of Korean EPB with centralised industrial policy coordination which made it easier for the bureaucrats to monitor and control strategic national projects.

The post war growth had its limitations in South Africa such as the over-reliance on gold exports. The costs and consequences of using disenfranchised and proletarianised labour was also a major limitation especially with increasing labour militancy from 1970s with the 1973 Durban strikes as a case in point (Visser, 2007). When the gold –dollar standard was dismantled, the South African economy stagnated with no further significant investment in fixed capital, which had previously



assisted the growth of manufacturing. The industrial policy oriented DS was eventually circumscribed by the free market economy era (the 1980s) which saw SAPs being introduced in many developing countries and there was a general 'race to the bottom' in state intervention. As argued by Lipton and Simkins (1993), the national Party government had shifted its thinking on intervention thus the DS of the 1940s was not an attractive approach for them. This was in line with the globally hegemonic discursive formations on less state intervention and any heavy handed interventionist economic policies were seen as inimical to development (Marais, 2011).

Another reason for the abandonment of the interventionist DS approach was based on the notion that parastatal-led growth was not viable. The private sector's share of the capital stock fell increasingly after the 1960s from 53.4% in 1961 to 42.3% in 1991 (Nattrass, 1994: 83; Fallon and de Silva, 1994: 57). This shift is entirely accounted for by the rise of the parastatals, most importantly in the iron and steel (ISCOR) and chemical sectors (SASOL). Osborn and Lings (1992) argue that the tendency of the parastatals to increase capital intensity in production (avoiding reliance on black labour) was the result of the interventionist approach. Between 1946 and 1979 (in which year parastatals' share of the capital stock peaked), parastatals' share of the national capital stock rose from 3% to 13%, with the main increase (from 7 to 13%) occurring between 1972 and 1979 (Fallon and de Silva, 1994). With the economy having relied on parastatals to some extent, there was a general disregard for a heavy handed interventionist approach to economic policies in the NP government. This is why the National party shifted its thinking towards a less interventionist approach with policies identified by Bond (2000) as constituting a:

...predictable piece of homegrown structural adjustment--embellished by *NEM's* intemperate hostility to centralized bargaining and its call for the phasing out of exchange controls and 'innovation and deregulation in the private financial sector'--which only in the conclusion entered into the rhetorical spirit of the times (Bond 2000:57).

So from this, it is clear the National party was abandoning any DS inclined policy in favour of the prevailing orthodoxy. For the incoming ANC government it was different because state interventionism was the most tenable approach of redressing the apartheid legacies. This was even more plausible given the promises given to the electorate but the hegemonic discourses on globalization silenced debates about the imperatives of state intervention. It is important now to pick up the story from the election victory in 1994.

### 3.5 The triumph of orthodoxy and the reversal of ‘growth through redistribution’.

The RDP base document seemed to signal that incoming government was prepared to use whatever resources available to change the lives of the majority. This was not without opposition as Di John (2006) noted:

The policy advice, therefore, for poorly performing economies generally advocates reducing the state’s role in resource allocation decisions. The main message of the capacity approach is ‘don’t try difficult interventions and reforms at home’ (Di John, 2006:1).

Moll (1991) epitomizes this ‘anti-interventionist’ orthodoxy for South Africa:

The danger is that errors in controlling aggregate demand can lead to all sorts of nasty development – soaring inflation, capital flight and discouraged foreign capital inflows, falls in business confidence and investment – which undermine economic growth

[...] the most general error of macro-economic populism is the denial of trade-offs – a belief that a range of desirable welfare objectives can be met at once (Moll, 1991: 320 & 326).

In refuting the ANC’s ‘growth through redistribution’, Moll had a strong disapproval to the extent of calling it a ‘dangerous fantasy’. He implied that there would be massive trade-offs and that it was impossible not to forego other important interventions in the economy. He was however not thorough by only giving a “negative example of Alan Garcia’s first government in Peru, a country with a much lower level of industrial development and infrastructure than South Africa and one that was seriously dependent on repaying foreign debts in order to function, also unlike South Africa.” (Freund, 2013b: 528). He was thus unabashedly in complicity with the hegemonic discourses of the time insisting that there was little space for government intervention if the economy was to grow fast.

The 1994 electoral victory and the beginning of the South African democratic dispensation were cheered by many, even in the international community. To locals, it meant the first democratic government which would carry out the desires of its people as promised in the RDP and espoused in historical documents such as the Freedom Charter. Needless to say that the expectations from the South Africans were enormous and frustrations to some were unavoidable. The negotiations at CODESA meant that the incoming ANC government had no absolute say in the GNU and the RDP proposals were to be ‘rationalised’ alongside the ‘disciplining’ of the ANC cadres in office towards the etiquette of policymaking in a globalised world.

Arguably, the assertiveness needed for the DS aspirations were diminished by the culture of negotiations which led to the formation of the GNU in which ‘veto points’ were created within the policy-making processes. Adelzadeh and Padayachee (1994) argued that the GNU was bedevilled with conflicts and tensions between ‘socialists’ and ‘pragmatist’ with the former arguing for full implementation of RDP while the later argued for fiscal prudence. The debate between the two camps led to the development of the RDP white paper which had changed its tone from ‘growth through redistribution’ in the base document to ‘redistribution through growth’.

Indeed as many have argued, the RDP white paper was at pains to explain its linkages to the base document (Van Niekerk, 2013; Turok, 2008; Michie and Padayachee, 1997). In the preamble of the white paper, President Mandela argued that the government was fully committed to a macro economic strategy that prioritised:

...gradual reduction of the fiscal deficit, thereby avoiding the debt trap, ...ensure that government expenditure does not increase in real terms, ... reduce government dissaving over time, ...changing the ratio of government spending towards increased capital expenditure (ANC, 1994b: 1).

It would seem – with the emphasis on macroeconomic stability – that the RDP white paper could have been better given a different name – maybe ‘green paper for GEAR’<sup>23</sup>. Despite the policy-makers insisting that the white paper was in line with the RDP base document, it was clear that the ‘basic needs approach’ of the base document was dropped in favour of expenditure containment. Arguably, it seemed as if social deficits, such as extreme poverty and homelessness, which were entrenched for many years were considered not to raise any alarm, but the economic situation, which was non-negotiable, could not be allowed to stretch any farther towards indebtedness for the sake of people. The white paper thus argued:

Therefore, not only has the RDP Fund financed with these (*fiscal*) constraints in mind, the overall process for taking forward the RDP, it is geared to cutting government expenditure wherever possible. [...] By acting with the requisite fiscal and monetary discipline, and reorganizing the financial relations of National, Provincial and Local Governments, we will ensure that the public sector's impact on the macro-economy will be positive (ANC, 1994b:1).

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<sup>23</sup> By late 1993, a number of concessions had been made by the ANC with regards to macro-economic policy including a clause in the constitution, which guaranteed the independence of the South African Reserve Bank (Michie and Padayachee, 1997).

When fiscal prudence was added, the rest of the goals in the RDP base document had to be, by default, circumscribed. The major goals of the RDP were reduced to a mere ‘wish list’. The economic constraints were real in the first half of the 1990s for instance, the currency crisis of February 1996, which caused the value of the rand to sharply devalue by 25% but ideas ‘crowded out’ real debate on the imperatives of state involvement in the economy.

Critically, it was the political style<sup>24</sup> of the ANC leadership as they sought to assert their political power by demobilizing civil society and abandoning the idea that communities were an integral part of the development of a democratic society. The RDP path had a grassroots appeal which the ruling party did not consider to be important during the time of establishing leadership assertiveness. To support the forgoing notion of a complete rupture of people-centred policies, Van Niekerk (2013) argues that nationalization was removed, even as an option, for the post-apartheid era and privatization (sale of state assets) was seen as important.

Following the currency crisis of February 1996, the office of the RDP was closed and the RDP projects were put under the ‘oversight’ of Mbeki who apparently “saw the plan as flawed and unaffordable” (Plaut and Holden, 2012: 43). As the real force in the Mandela administration, Mbeki’s ‘oversight’ of the RDP project sounded the death knell to most proposals in the RDP save for rhetorical reference to the RDP as a guiding principle for policy-making. Drawing heavily on the IMF’s principles of sound monetary and fiscal policies, GEAR was unleashed in 1996 as a key policy framework which South Africa would follow. Described by Padayachee (2009:15) as “...one of the most inflexible and intransigent interpretations of neoliberal orthodoxy in the world”, GEAR did not only shock the progressive economists within the country and abroad, but destabilised the ANC-led alliance as the ANC became an invincible partner in the alliance. Pons-Vignon and Segatti (2013) argued that the shift to the left was consolidated by Mbeki’s involvement with ANC’s Division of International Affairs (DIA) in which he developed a strong affinity towards the IFIs and global finance such as Goldman Sachs.

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<sup>24</sup> Butler (2013) argued that the ‘exiled dinosaur’ (ANC) , upon its return, wanted to reassert its political power and give the impression that it was still at the frontier of the National Democratic Revolution (NDR) and a true real party of the majority.

While trying to tread a conciliatory path between unilateralism and consultation, GEAR boiled down to a vision which was outward oriented<sup>25</sup>. It comprised orthodox investor-friendly and stabilization policies, cutting of government consumption spending, and making the labour market more flexible. Its effects were not different from the Structural Adjustment Programs (SAPs), which were introduced in most developing nations throughout the 1980s (Bond, 2000). Padayachee and Sherbut (2007) noted that the Treasury and the Presidency, in complicity with the dominant thinking of the time, made sure that the 13 economists advising on South Africa's economic policy were mainly Harvard-based economists – AIM complex. This also led to the downplaying of South African 'exceptionalism' as South Africa was placed on the same global platform of economic policy-making despite its historical experience which needed a people-centred approach.

It may be important here to reflect on the DS argument which disappeared in the RDP base document, RDP white paper and became even more distant in the GEAR framework. It can be argued, ironically, that the introduction of GEAR as a non-negotiable policy framework and the general authoritarian style of the Mbeki administration, under Mandela and in his own two terms of presidency, were features endemic in the Asian DS archetypes. Mbeki had the policy assertiveness and arguably able to control bureaucratic recruitment and to have an insulated bureaucratic autonomy. Despite the political style of a DS portrayed by Mbeki, the economic and administrative policies were so different from the Asian archetypes such as South Korea, Japan and even China. This is so because the Asian bureaucracy was meritocratic, as discussed in chapter 2 while the South African policymakers, during this time, were focusing on black empowerment characterised by mostly political elites instead of real industrial elites such as *Chaebols* in South Korea and *Zaibatsu* in Japan (see Von Holdt, 2010). So the ANC's legitimacy and its ability to act in an authoritarian way, dominating civil society, emanated almost entirely from its struggle legacy. There was a general acknowledgement that Mbeki's first term saw the stabilization of the economy, debt containment and even improved growth (ANC, 2012). The major discontentment with Mbeki came in his second term because comparable countries such as Brazil, Russia, India and China (BRIC), for example, all grew much faster than SA in this period. They all experienced decreasing inflation.

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<sup>25</sup> In contrast to the RDP strategy which correctly identified inequality as cause for concern, GEAR did not identify inequality as a policy goal (hence its 'redistribution through growth') but it rather stressed unemployment which the RDP considered important but not sufficient means to reduce inequality (Weeks, 1999).

Brazil<sup>26</sup> (and many other Latin America countries) experienced improvements in their Gini coefficients (Gumedé, 2013:6; Lustig *et al.*, 2013). While Mbeki managed to politically centralise power in the government, as per the Asian DS, economic policies remained within the neoliberal framework. Meritocratic recruitment as seen in Asian DS was also absent in Mbeki's administration thus making it impossible to argue that Mbeki was taking the Asian DS route.

The waning of the DS as an alternative ideology was aggravated further by the Asian financial crisis in 1997/1998. Eul-soo (2000) for example argued that due to the Asian financial crisis, the states were supposed to stop intervening in their economies and leave the markets to function alone. Within the 'market dominance school', the general interpretation of the Asian crisis was inclined towards the notion that the DS was long gone if it existed at all. The crisis in Asia was thus in some way a panacea for solidifying the conventional wisdom on liberal democracy and strengthening the 'no alternative' mantra.

### **3.6 The fate of the marginalised when 'redistribution through growth' was adopted.**

If South Africa is to become a DS, such a DS should mean some benefits for the majority, through channels such as job creation and reduction of inequality among the population. Otherwise, whatever South Africa's economy becomes, DS or not, will mean nothing. With the orthodox 'triumph' and the needed macroeconomic stability 'attained' through GEAR and other stabilizing policies, it is necessary to consider whether such a growth-first approach was the best tool to unravel entrenched historical legacies.

The transition into South Africa's democratic era also served as a battlefield for the 'soul of the ANC' and the forces of antagonism also tested the ANC's commitment towards an egalitarian society (Adelzadeh and Padayachee, 1994; Marais, 2011). The orthodox route taken after the democratic election was, in some way, a contradiction of the ethos which had built the ANC during the struggle. The market economy favours the strong and in South Africa, this meant the white minority (as well as the emerging black elite) and foreign owned conglomerates which were and are still better able to play the market 'game' than ordinary citizens.

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<sup>26</sup> Burger (2013:9) argued that Brazil's Gini coefficient dropped from 0.61 in 1990 to 0.53 in 2010 with 21% of this improvement coming from its *Bolsa Familia* poverty reduction income transfer scheme.

It would have made no sense to adopt market economy principles such as fiscal prudence or tight monetary policy, while advocating for comprehensive social democratic welfare programs. Instead, all the social policies had to be aligned to the adopted macroeconomic framework to suit the available fiscal ‘envelope’ which was premised on ‘cutting expenditure’. This caused the social democratic principles which had characterised the ANC historically to be circumscribed in favour of ‘residualist’ social policies. Seekings (2000:01) referred to it as “...a social safety net that is unusually widespread but nonetheless has large holes”. Even if the safety net is extensive for a middle income country such as South Africa, it is still not effective. Since the social democratic values partly define the ANC’s ‘soul’, it is necessary to reflect on historical thinking by the ANC towards social democratic principles – which also shaped the thinking of the left during the transition (Hirsch, 2005).

Inscribed in the Africans' Claims, based on the Atlantic Charter, was the notion that the ANC embraced the idea of social citizenship as a cornerstone of the democratic South Africa. For instance Xuma (1943:1) argued:

We want the Government of the United Nations to know and act in the light of our own interpretation of the "Atlantic Charter" to which they are signatories. This is our way of conveying to them our undisputed claim to full citizenship.

[...] ...expressed in this Bill of Citizenship Rights until freedom, right and justice are won for all races and colours to the honour and glory of the Union of South Africa whose ideals - freedom, democracy, Christianity and human decency cannot be attained until all races in South Africa participate in them.

[...] We regard it as the duty of the state to provide adequate medical and health facilities for the entire population of the country (Xuma, 1943 *In the African Claims*).

Whether the above goals were unattainable in the apartheid era is not important. What is important for this section is the realization by the ANC in this period that the world was converging towards universal citizenship rights<sup>27</sup>. According to Van Niekerk (2013), the discourse of citizenship rights engraved in the Africans’ Claims echoed the social democratic discourse emerging in Britain on

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<sup>27</sup> Even in the ruling government, social citizenship was gaining popularity as Seekings (2000,01) argued: “The origins of social citizenship in South Africa lie in the early and mid-1940s, when the state first assumed responsibility for the welfare, broadly understood, of all South Africans. The most significant achievement was the introduction of a universal old-age pension system.”

direct government provisioning of health, education and income maintenance for all citizens regardless of social status or position. In the Freedom Charter, the ANC argued that:

The ANC's position is that just as there are two kinds of equality, so there are two kinds of revolution, separate yet intertwined. One is the national democratic revolution for equal rights; the other is the socialist revolution for public ownership, workers' control and a classless society. The national revolution for equal rights is the special province of the oppressed nationalities; the socialist revolution takes the form of a class struggle led by the working class of all national groups. The two revolutions co-exist, operating side by side. They interact, blending at many points and fructifying each other (ANC, 1955:1).

The immediate goal for the liberation movement was political freedom but in the 1940s and 50s the ANC was embracing principles relating to the social democratic welfare state. It is interesting therefore to note that while the NP government was characterised in the 1940s as a DS and a racially bound welfare state (Freund, 2013a); the ANC led liberation movement was inclined towards the Scandinavian model of social democracy (Van Niekerk, 2013). The ANC maintained its affinity, even when it was underground, to social democratic principles (Hirsch, 2005). This was supported in the *ready to govern* document, released two years after the ANC was unbanned, when it argued:

The ANC, in keeping with its general commitment to an egalitarian society, rejects the dictum that the poor will always be with us. It believes that poverty is created by society and it can therefore be eliminated by society. [...] We acknowledge that the state has a major role in meeting the legitimate and realistic expectations of all, especially the poor, disadvantaged and other vulnerable persons. We do not encourage the hand-out approach to social welfare provision because it does not address the root causes of social problems (ANC, 1992: 28 & 29).

This suggests that the ANC after being unbanned in 1990 pursued its social democratic aspirations, at least in its public rhetoric, despite facing the formidable tide from, not only the international sphere, but from the ruling NP government which had adopted and was fast adopting free market principles espoused in its Normative Economic Model<sup>28</sup>. As noted by Le-Roux (1990), the SD – which arguably was the best answer to questions raised in the Freedom Charter would constitute a compromise needed to deal with apartheid legacies and would thus significantly reduce gross inequality and poverty. Although without professing it, the ANC came into negotiations advocating for social democracy in South Africa as even the RDP testifies by saying:

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<sup>28</sup> National Party's Normative Economic Model emphasised the protection of the property rights – and as expected, was supported as well as by the core of the largely white-run business sector – since the incoming government posed real threats of dismantling the apartheid system of ownership of the means of production thus the orthodox economic framework was in the best interest of the NP government (Marais, 2001).



The present racially-based, discriminatory social welfare services are piecemeal responses. They have little impact on the root causes of social problems and on the disintegration of the social fabric. The RDP aims to transform the existing social welfare policies, programmes and delivery systems so as to ensure basic welfare rights are provided to all South Africans (ANC, 1994a, Para 2.13.1 & 2.13.2).

The ANC, judging from the above extract, was determined to tackle the structural causes of social problems which a piecemeal liberal welfare system would not be able to tackle. The events at CODESA and the victory of the hegemonic orthodox economic discourse on the policy front meant the death of SD as a viable alternative. It was also mainly because the orthodox camp was ready to attack anything with a statist ‘flavour’ and related such an interventionist tone to fiscal profligacy. Simpson (2009: 20) argued that, “If society is not proactively organised to shape what is happening at the negotiating table, it will not be heard.” This is how the CODESA negotiations fell short of a real social democratic compromise since there was no real sense of grassroots participation. Post-apartheid South Africa thus hardly escapes the neoliberal description and the ANC’s social democratic ethos has at best remained in speech. This might have led Patrick Bond (2000 & 2009) to succinctly name the process as *‘Talk Left to the poor township and rural people and walk Right with the business conglomerates and the elites’*.

Talking about inclusive growth characterise ANC government while the social plight of many has worsened. This has been exacerbated with poor economic growth in the post-apartheid era which has failed to absorb a significant number into formal employment. The realization of this has caused much talk about the need for a social compact between all stakeholders so that all sectors (labour, government, businesses and civil society) may contribute and share the sacrifices required to change South Africa’s socio-economic problems – mainly poverty, unemployment and inequality. The next section turns to the circumstances surrounding social compacts in South Africa under the auspices of the National Economic Development and Labour Council (NEDLAC) as an institutionalised forum for social compacts.

### **3.7 NEDLAC and Social Compacts in South Africa; Potentials and Challenges.**

The South African transition to democracy was nothing short of a social compact considering huge compromises and sacrifices which became key tenets of consensus building and which also led to the formation of the GNU. The NP government was failing to contain political dissent. The ANC led national democratic revolution was on the other hand failing to topple the NP government which would end the system of apartheid. On the political front, the GNU thus can be seen as a by-product

of a social compact which was implicitly entered into by both sides as they negotiated for the democratic dispensation. The RDP itself, as acknowledged in the previous section, was also in itself a compromise between the different ideologies of the tripartite alliance which aided the national healing process. However, as revealed in chapter 2, the compromise enshrined in the RDP also appeared as sell-out to dogmatists from the ultra-left and ultra-right while it could be seen as an ideal social democratic compromise bringing unity in the country.

Prior to the democratic dispensation the culture of corporatism had already emerged in South Africa, like elsewhere, in the labour relations arena (Parsons, 2007). The success of the Wiehahn Commission (1979) in bringing recognition of black and multiracial trade unions was a milestone in terms of normalizing labour relations in South Africa (Lichtenstein, 2013). Such a concession by the NP government arguably strengthened the liberation movement as the workers had the preponderance – together with the ANC – in consolidating the fight against apartheid (Williams, 1988). In the same year (1979), the National Manpower Commission (NMC) was established and it comprised of representative from labour, government and business. These were meant to advise the government on labour related policy issues.

Chief among the early forms of ‘tripartism’ in the transitional South Africa was the *Laboria Minute* of September 1990. The *Laboria Minute* mainly argued that all labour related legislation would be passed after consultation with all parties concerned (Godfrey and Goldberg, 1996). The anti-VAT strike led by unions later in 1991 was a sure sign that the unions were determined to make the state recognise COSATU’s demands with regards to the process of policymaking in general. With the overwhelming realization that comprehensive consensus was needed, the National Economic Forum (NEF) was formed in October 1992 and it was meant to bring organised labour, organised business and the government together to:

...deal with economic and related socio-economic issues. The National Economic Forum should aim to provide a mechanism through which economic stakeholders can address the economic challenges facing the country. It would in the first instance be a body operative for the transition period. The National Economic Forum will seek to support the transition to democracy (NEDLAC, 1994).

Located within the process of transition, the NEF was short term based and it was a platform from which some of the day-to-day transitional matters were discussed. Parsons argued that with high

level of informality – unlike the statutory MNC – the NEF’s strength was in the fact that it was a result of “...a needs-driven voluntary process mainly initiated in its early stages by labour and business, reflecting a political will to make it work and deliver” (Parsons, 2007:07)<sup>29</sup>. The NEF proved to be a very significant formation that harmonised the old apartheid state and the incoming ANC regime’s demands and can be viewed as the ‘apprenticeship’ for the more formalised NEDLAC that still lay ahead.

The NEDLAC Act no. 35 which institutionalised the social compacting/dialogue in South Africa. The major aims of the council specified in the act included that the council shall:

a) Strive to promote the goals of economic growth, participation in economic decision-making and social equity; (b) seek to reach consensus and conclude agreements on matters pertaining to social and economic policy; (c) consider all proposed labour legislation relating to labour market policy before it is introduced in Parliament; (d) consider all significant changes to social and economic policy before it is implemented or introduced in Parliament; (e) encourage and promote the formulation of co-ordinated policy on social and economic matters (NEDLAC, 1994:1).

NEDLAC consist of four chambers in which the social partners discuss matters concerning specific portfolios of each chamber. These include the Labour Market Chamber, the Public Finance and Monetary Chamber, Trade and Industry chamber and the Development Chamber (NEDLAC, 2013). The inner workings and specific details of each chamber are beyond the concern of this study but the focus here is given to the overall outcomes and challenges of social compacting in South Africa. NEDLAC as an institutionalised platform of social compacts provides a litmus test to understand whether South African policy can be understood or achieved through the often referenced social compact. Whether the DS can be achieved by means of social compacts depends on the efficacy of the social compact negotiations both formally through NEDLAC and informally through platforms such as the ANC led alliance (discussed further in chapter 5).

Since its inception, NEDLAC has been seen with mixed feelings because of its real and perceived failures and successes. The chief victory is the Labour Relations Act (LRA) no. 66 of 1995. According to Gostner and Joffe (1998), the LRA negotiations reflects a good example of how labour

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<sup>29</sup> Gostner and Joffe (1998) argued that while the NEF did not accomplish much, it played a pivotal role in blocking unilateral reform by the National Party.

had utilised the space within NEDLAC and had ensured that it would never be marginalised in the policymaking processes<sup>30</sup>. While the LRA was seen in a positive light, the legislation, according to Fryer and Newham (2002):

A similar problem clearly exists for “informal” agreements between union and employer groups, such as occurs in the mining industry. Here “non-union” workers are not covered by agreements, and employers can avoid the stipulations of the agreement by hiring “contract workers” (Fryer and Newham, 2002: 20).

The above quote, although focusing on the union and employers, reveals that the voluntary manner which defines the functioning of NEDLAC was problematic because partners only cooperated when it was in their interest. Despite being a more formal body than the NEF, NEDLAC is still a voluntary platform. This voluntary nature of relations between partners at NEDLAC, workable during transition to democracy since incentives to comply were high, continues to impede progress on any negotiations in the present era. The actors soon found themselves in entrenched positions and with the ‘voluntaristic’ nature of relations, polarization became inevitable (Godfrey *et al.*, 2007). In addition, the social compacting was very narrow and almost confined to labour related issues without real sacrifices from business sector. This is not acknowledged by the liberals (see Parsons, 2007) and the business class which believes that formality is burdensome thus preferring the informal relations in which they cannot be ‘pinned’ down. So the real problem of NEDLAC was its mode of institutionalization which favoured informality and voluntaristic cooperation without legislative backing. The parallel informality within the ANC-led political alliance with SACP and COSATU did not help the situation either (see chapter 5).

Whatever reasons given for the unilateral introduction of GEAR, such as the urgency of the need for stabilization of the economy on key fronts like inflation, monetary policy and fiscal prudence, the NEDLAC processes were never the same after GEAR was introduced. The notion that when it matters most for the economy, or when the government sees fit, the NEDLAC could be bypassed, gave the partners, particularly labour, a different view about NEDLAC and social compacts in general. As a result of this development, two, arguably pervasive, outcomes emerged. The first is the fact that COSATU chooses what to take to NEDLAC and what to take to the ANC led alliance; the second is that businesses choose secretly to go straight to the government on matters which they

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<sup>30</sup> Gostner and Joffe (1998) also acknowledged the importance of the ‘side letter’ which meant that countries trading with South Africa would sign a non-binding agreement to respect human rights and work towards the ratification of core ILO conventions.

think they may not win at NEDLAC. This reflects that the partners use NEDLAC “opportunistically, seeking out other venues where potentially unfavourable decisions might be modified” (Donnelly and Dunn, 2006: 13).

With the co-option of many cadres (even intellectuals) from the unions into the government positions when the ANC came into power, NEDLAC also caused the union movement to become more accommodating, thus diminishing the real contribution of unions to policy-making (Michie and Padayachee, 1998; Padayachee, 1997). Panitch (1996) aptly captured this phenomenon while also revealing the declining reputation of unions when he argued:

One middle ranking NUMSA official told me one night at Kippies jazz club in Jo'burg that it used to be the case that when COSATU people went to a place like this, heads would turn - they were seen as heroes in the centre of the action. Today, those who have stayed with the unions rather than gone into the state are seen as "losers" - not only financially, but because that's not where the political "action" is any longer seen to be (Panitch, 1996:03).

Panitch (1996) also notes that the general picture he got from union leaders was that democracy meant that no union leader would be imprisoned, but the fear of being ‘imprisoned at NEDLAC’ was equally real. On the policy-making front, government has been drafting policy in isolation from the social partners and tabling issues at NEDLAC as ‘done deals’ indicating that the NEDLAC process has become a formality (Gostner and Joffe, 1998). With such an approach, NEDLAC became a place for shrill debates consuming a lot of time before consensus is reached. This was further aggravated by the fact that the representatives often lacked skills and knowledge to understand all proposals brought to NEDLAC. Interviewing one of the representatives at NEDLAC, Gostner and Joffe (1998: 145) were told: “Look you need to understand something about NEDLAC. The leadership lets us play in the sandpit and then they arrive in fire engines, they do what they want and ride into the sunset.” This reveals the abeyance of democracy by the leadership and it also partly contributes to the failure of NEDLAC in general because those with power dictate in such informal relations. This is why Bernstein’s approach to democracy as a system without class rule is important because in such systems as seen in Swedish system, labour is not simply subordinated but is treated as relevant as the business class.

It may thus not be exaggerating to argue that the NEDLAC process represents a mere ‘fronting’ of consensus in policy-making while the real policy-making is the preserve of the state and capitalist class. This entails that two aspects developed: the first was the liberalization of economic policies

and the second was the formation of a particular variant of corporatism epitomised through NEDLAC. This corporatism served to contain labour and the ‘left’ while neoliberal economic policies were pushed through.

### 3.8 Conclusion

Interest in MERG, however, keeps bouncing back because the success of GEAR-type macro-economic has been so limited, apart from the claim which can be made that the move right stabilized a dangerous situation politically and created a platform on which the new South Africa could operate. Especially with the passage of time, the weaknesses of following orthodox policy became more and more apparent – slow and uneven growth, limited foreign investment, low savings rates and punitive interest rates, continued poor education and training results, little success in shifting towards manufacturing exports and continued balance of payment problems (Freund, 2013b: 532).

As acknowledged above, the core argument of this chapter is that the transition to democracy presented a ‘window of opportunity’ with different ‘roads’ to be taken in the South African post-apartheid economic trajectory. It is crucial to highlight that this ‘window of opportunity’ was constrained by objective conditions such as high debt, weak state, the powerful position of business and worries about the political violence. This circumscribed the choices available for the ANC<sup>31</sup>. Expressly, the idea of constructing a developmental state was evoked as a possible ‘road’ to be taken by the post-apartheid state and this idea also competed with ideas of social democratic state implicitly inherent in the ANC as the ruling party in waiting. Arguably, the compromise reached when the RDP base document was formed and the formation of the NEF, CODESA negotiations and eventually the formation of NEDLAC captures what can be called the South African ‘social democratic moment’. This is because of real concessions given by various social partners to ensure a smooth transition during this time. The will to negotiate the transition, unexpectedly, was a significant step towards social democratic dialogue during this ‘social democratic moment’ – leading some to regard the South African transition as a ‘miracle’ (see Lipton, 2007). As discussed in this chapter, the ‘voluntaristic’ nature of relations at NEDLAC contributed to the demise of real consensus approach to policy.

GEAR also partly sounded a death knell to the emerging social democratic culture – hence the end of the ‘social democratic moment’ – and the system took another ‘road’ characterised by fiscal

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<sup>31</sup> This is supported by Khan (2013:581) who argued that the “ANC in the early 1990s was strategically outmanoeuvred, strategically blundered, and (un)wittingly squandered opportunities to restructure and transform its political economy in both democratic and developmental formats.”

prudence, macroeconomic stability and worse still the authoritarian political style inimical to real social democratic compromise. Fryer and Newham (2000) correctly summed it up by arguing:

We argue that a theme running through all South African policy is “failure to break the mould” as the East Asian and Nordic countries broke the mould. Neither broader development policy nor labour market policy are designed specifically for South Africa. As a consequence they are not mutually consistent. The underlying problem is that South Africa has never really had a vision of development and is bewildered as to exactly what to do (Fryer and Newham, 2000: 17).

In other words what Fryer and Newham are saying is that the 1990s represented a turning point at which the ‘systemic iron’ was hot and needed to be hammered into desired shape. However, as Terreblanche (2012: 127) argued, the ‘hot iron’ was struck into a wrong shape because of the power and privileges given to the corporations, transnationals and emerging black corporations (BEE). As a result the post-apartheid South Africa gave a lot of concessions to the minority as was in the case during apartheid and segregation.

## CHAPTER 4 THE REMERGENCE OF AN INTERNAL DISCURSIVE PROCESS

### 4.1 Introduction

The second decade of South Africa's democracy will remain a crucial juncture in the political and economic history of South Africa because there was a strong internal discursive process emerging. This internal discursive formation brought up the question of non-neoclassical alternatives to equitable economic growth and was more prevalent due to the disillusionment with the 'redistribution through growth' policies followed since 1994 (Villa-Vicencio, 2007; Pons-Vignon and Segatti, 2013). This was strengthened by external factors such as the 2008 financial crisis from which South Africa got its fair 'share' through half a million jobs lost (SARB, 2010). The persistent inequality and the 2008 loss of jobs phenomenon, which worsened unemployment, also helped to worsen the growing criticisms directed to the incumbent government concerning its pursuit of the free market economic policies. As a result, there was a growing impetus towards 'interventionist' alternatives to economic growth such as the Developmental state Paradigm (DSP) and Social Democratic Paradigm (SDP) which were seen to be viable in various ways for South Africa.

Politically, the rise of Zuma and his victory at Polokwane conference in 2007 was also very important as it led to the entrenchment of the idea of the DSP which supposedly informed the project of the incoming Zuma administration. The DSP envisaged by the ANC, during this period, was however not coherent and it is not clear whether it was to resemble the 20<sup>th</sup> century Asian developmental states or the new formulations such as Edigheji (2010)'s 'democratic developmental state' or the 'capability enhancing state' envisioned by Evans (2010). This haphazard discussion about the DSP eclipsed other possible 'left' alternatives, such as SDP whose principles the ANC continuously pay lip-service to. The DSP was in fact in some way a form of a 'Trojan horse' to any other alternatives on the 'left' which the Polokwane conference leaned towards and thus the signal "we are building a developmental state" can be viewed as a cop-out.

This Chapter seeks to demonstrate that a real shift to the 'left' was circumscribed by the 'ideological colonization' which led to the reduction of the 'developmental state' concept into a mere buzzword inserted into speeches and policy frameworks of the ruling party – meaning different things to different people (Fine, 2013). Even the impetus towards 'developmentalism' and 'welfarism' espoused at Polokwane did not gain meaningful purchase as the discourse gravitated towards mere



technical issues such as ‘state capacity’ and statements such as ‘welfare state creates dependency’ (ANC, 2007). The first section will dwell on the policy proposals on the DSP and the SDP which was also implicitly thrown into the policy frameworks alongside the ‘developmental state’ rhetoric. The section that follows will go beyond the policy proposal and look into what constitutes the ideal ingredients of the 21<sup>st</sup> DSP. This section will also argue that the creation of the developmental agency such as the National Planning commission, Economic Development Department and the DTI’s Industrial Action Plan (IPAP) has not constituted a developmental state. This will be followed by an analysis of the social services as key instrument of the 21<sup>st</sup> century capability enhancing welfare state and the last section will conclude.

#### **4.2 The South Africa’s recent ‘shift’ towards ‘lost alternatives’.**

Chapter 3 has argued that the DSP was actively evoked in the transition period especially in the *Ready to govern* document, *MERG report and the ISP report*. With the introduction of the orthodox GEAR in 1996, the DSP waned dramatically as the South Africa became a minion of Washington consensus (Marais, 2011). The revival of the DSP in the second decade of South African democracy was arguably an attempt to look for alternative growth models in the face of the ‘bankruptcy’ of the free market economic policies. An interesting point is that the ANC even tried to disassociate itself from GEAR policies arguing that it was only “...a tactical detour necessitated by objective conditions (high public debt and deficit, bloated public service, low growth, etc.)” (ANC, 2012:9).

The re-emergence of the DSP in the ANC (as the governing party) started in the 2005 at the ANC’s National General Council. The council evoked post-World War II programs such as the Marshal Plan, East Asian growth model and the European Union integration program as examples of historical events in which nations actively sought to stimulate their economies – using alternatives to the orthodox economic policies. With reference to the DSP the ANC council argued that:

The developmental state must be conceptualized in concrete terms. It is a state with a programme around which it is able to mobilize society at large. It is also a state with the capacity to intervene in order to restructure the economy, including through public investment. The task of building a developmental state in South Africa must address a number of challenges, including: Identifying the kind of institutional reform, at the level of the state, which we would need to undergo to establish an effective developmental apparatus, building the requisite capacity and skills within the state to manage the tasks of development, ensuring that development finance institutions act in concert to back our overarching developmental approach, particularly as it relates to the transfer of resources from the ‘first’

to the 'second' economy, improving the capacity of local government and integrating our development plans across all spheres of the state. (ANC, 2005: Para 18-19).

It is clear that although the Zuma regime was associated with the DSP from 2007 onwards, even under Thabo Mbeki's leadership in 2005 the ANC leadership was beginning to consider alternatives. What Zuma did was to popularise the ANC's stance towards the DSP and with his popularity and populism style; it was easy to make the DSP a 'legitimate' policy goal since his supporters were ready to back him on any policy stance he would take. With the DSP hardly developed into a more practical program of action, it can be argued that Zuma's populism also helped to make the DSP a 'big deal' despite the fact that it was never developed beyond rhetoric. With the rolling out of the *Strategy and Tactics* of the ANC for Polokwane conference, the parlance of the DSP permeated into politics thus bringing the association of DSP with the Zuma 'revolution' (see Turok, 2008).

One important aspect of the DSP in all the successive official documents such as those emanating from the ANC as a party and the government is that the DSP 'story' does not go in most cases beyond encapsulations such as: 'We should become a developmental state that...; As a developmental state, we should...; We seek to build a developmental state with capacity to ...' It was not clear whether the DSP was only meant to be a mental model to instil a 'developmentalist' ideology within the policymaking circles because it never moved out of the realms of rhetoric.

While the formation of the National Planning Commission (NPC), Economic Development Department (EDD) and the DTI's Industrial Policy Action Plan (IPAP) may signal a move towards a DSP, the move is circumscribed due to lack of cohesion in state planning. Section 4.3 will elaborate further why the presence of South African developmental agency fails to constitute a developmental state paradigm. The call for a DSP in the absence of fundamental economic policy unity amongst government departments only legitimise the top-down political style of the ANC as generally seen through its lack of willingness to cooperate with unions. Southall (2012) argued that the DSP in South Africa will only serve to consolidate the power of party-state bourgeoisie thus legitimating the narrow elite enrichment which has already been seen through the narrow Black Economic Empowerment (BEE) policies.

Even more questionable is the 'understanding' of the DSP in the ANC because it seems to imply that it looks forward to building 20<sup>th</sup> century DSP in the 21<sup>st</sup> century as if the clock can be turned backwards for the country to grab its lost 20<sup>th</sup> century opportunity for formulating a DSP. In other

words it appears as if it was meant to signal to the electorate that the incoming president had a ‘grip’ of what the economy required – a pro-active state on developmental issues. Such parlance reveals that the use of the phrase ‘developmental state’ in South Africa has been deployed whenever the state desires to make any positive intervention in the economy – reflecting the buzzword nature of its use in South Africa. It appears that it could be possible to send the message of what the state aspired to do without putting the phrase ‘developmental state’<sup>32</sup>. The lacklustre reference to DSP strengthened, as argued above, from the ANC’s Polokwane *Strategy and Tactics* which argued:

We seek to build a developmental state with capacity to effect fundamental transformation; a state that approaches the issue of ownership of means of production on the basis of balance of evidence, informed by the needs of society, particularly the poor (ANC, 2007).

Zuma, soon after becoming South Africa’s president, in his 2009 *State of The Nation Address*, rubber-stamped the above ANC’s stance on the DSP by telling the nation that:

...working with the people and supported by our public servants, we will build a developmental state, improve public services and strengthen democratic institutions. The creation of decent work will be at the centre of our economic policies and will influence our investment attraction and job-creation initiatives (Zuma, 2009).

From the above quotes, whatever the government intended to do for the public, including its core functions, was an opportunity to reinforce the DSP concept by inserting the term ‘developmental state’ into the documents and speeches. With such official addresses, there is no opportunity for further clarity and the audience will do the homework and in most cases the Asian DSP often comes to the fore in people’s minds without any considerations of how the South African variant would look given its own context. The DSP was arguably easy to sell to the public as it came during the era of weakened free market policies and served as a counterpoint to the market economy policies while also serving to signify that the new leadership was assertive on its pursuit of alternatives.

Having been discussed in the ANC documents, the DSP was to be incorporated into government policy and after the president announced it in the State of the Nation Address in 2009, the DSP became embedded in the government policy frameworks. The New Growth Path (NGP) expressly stated that:

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<sup>32</sup> Cornwall (2007:474) argued that policies survive due to ambiguity which allows endorsement from potentially conflicting ideologies and “Buzzwords aid this process, by providing concepts that can float free of concrete referents, to be filled with meaning by their users”.

The New Growth Path recognizes the role of an effective, developmental state in achieving broad-based employment growth. This perspective raises at least three critical institutional issues: the role of the state, the market and key market players, and social mobilization and dialogue (EDD, 2010:28).

With the DSP being mainstreamed into official government policy frameworks, one would expect the concept to be encapsulated in a more pragmatic way but as reflected above, it remained only at rhetorical level. With the global financial crisis having loosened the ‘fetters’ of orthodox economic policies and created new space for policy alternatives, there was enough ground for the government to fully adopt any alternative which would suit the South African context. The DSP, the expressly chosen route, could have been fully developed with specificities of what form of institutions would be put in place, ministerial responsibilities and the role of private sector. What happened rather was an amorphous, underdeveloped conception of DSP which was void of any concrete direction but was nevertheless continuously thrown into policy discourses.

The lip-service to the DSP was arguably also undergirded by a limited understanding of the Asian DSP from which the South African brand was evoked. For instance the top-down patriarchal labour relations system of the Asian DSP which kept wages very low (until recently) in most Asian NICs did not fit with South Africa’s constitutional democracy and relatively powerful unions. The pursuit of a DSP in South Africa would mean contradictions with the 20<sup>th</sup> century Asian DSP on many facets such as labour relations, geopolitical context, democratic consolidation and social dialogue. For instance in the foreword to the NGP, president Zuma summed up the major goal of the NGP by saying:

The New Growth Path is our vision to place jobs and decent work at the centre of economic policy. It sets a target of five million new jobs to be created by 2020. It sets out the key jobs drivers and the priority sectors that we will focus on over the next few years. It is based on strong and sustained, inclusive economic growth and the rebuilding of the productive sectors of the economy (Zuma in the New Growth Path, 2010:2).

The aspiration of decent work<sup>33</sup> stands out in the NGP (throughout the document) and is commendable given it has huge support from those currently in jobs and those seeking employment. The problem arises when the decent work has to be viewed through the lens of the DSP and if policymakers will be true to the Asian DSP of the 20<sup>th</sup> century, the decent work would be

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<sup>33</sup> Webster (2007), argued that decent work is a much broader demand than a living wage, it comprises of dignity and security, a degree of workplace permanence without discrimination, training and career development, social protection and an institutional voice.

unachievable. This further reflects that the South African DSP is only a *paper tiger* especially given contradictions which arise when a thorough understanding of the Asian DSP is sought. The quote above also speaks about inclusive economic growth which again is a noble aspiration by the policymakers who have understood that the growth in the past has not been inclusive enough to reduce inequality. While the Asian DSP was spectacular about its economic growth and technological catch-up, the same cannot be said for ‘inclusive’ growth and in fact Johnson argued that for DSP (Japanese brand):

A state attempting to match the economic achievements of Japan must adopt the same priorities as Japan. It must first of all be a developmental state — and only then a regulatory state, a welfare state, an equality state, or whatever other kind of functional state a society may wish to adopt (Johnson, 1982:306).

Johnson’s point is that emulating the Asian DSP requires the same prioritization that those countries followed. This is questionable, as the next section shows. But this does raise the question of whether the DSP in the form of Asian archetypes is appropriate for South Africa given that the constitutional democracy may not warrant Johnson’s sequence of development that puts welfare state and equality at the bottom of priorities. Not only is the DSP argument underdeveloped in the policy frameworks, it also continues to dominate and prolong the time taken before other alternatives can be considered. Marais (2011:338) aptly captured it when he argued that “The post-apartheid state had blundered in a twilight zone, at one moment reflecting a developmental state, the next acting like a minion of Washington Consensus.” The fact that the DSP is not fully developed and is ‘blocking’ other policy options may entail that South Africa is not only losing other alternatives but is losing the DSP itself since its conceptualization has only remained at the level of a catchword.

From the policy documents which incorporate the DSP discourse (with phrases like ‘We should become a developmental state...’), it is clear that one cannot confidently say that the DSP will be developed into a serious program of action because the policy documents are awash with these ‘shoulds’ which never see the light of the day. Webster and Southall (2010:146) could not have said it better when they argued that “...it became fashionable in government and party discourse to pay homage to the idea of South Africa pursuing the path of a developmental state.” This leaves one wondering why there is an emphasis about the DSP if it does not constitute a real approach to be adopted. As it became fashionable to talk about the DSP, it thus served to bring the SDP and other

possible policy initiatives to a subordinate position. COSATU (2010:10) expressed a similar concern by arguing that:

It is not obvious that consensus policy positions that emerge from Alliance deliberations find expression in ANC policy directives, and neither is it obvious that ANC policy directives will find expression in government policy, and neither is it obvious that government policy will be implemented by the state bureaucracy.

Pons-Vignon and Segatti (2013) argued that while there is an impression of consensus evidenced by ‘talks’ (including alliance agreements etc.), ‘real’ policymaking is done by the Presidency and National Treasury. Throwing relatively vague statements into the public (‘developmental state’, ‘New Growth Path’ etc.) helps to legitimise and to some extent conceal where the heartbeat of ‘real’ policymaking lies.

Chapter 3 has demonstrated that from the 1940s to the present (2013) (save for the first decade of democracy), social democratic thinking is evident in the ANC’s documentation and a study of these documents actually may lead one to think that the DSP is a misfit to the South African development policy discourse. This is because the ideal society the ANC keeps talking about is not clearly spelt out in terms of how it will emerge from the DSP compared to other alternatives (Van Niekerk, 2013). Fakir (2007) supported this notion by arguing that:

Overall, an efficient, effective, responsive and accountable public service goes a long way in inculcating a civic culture of citizenship and this recognition is expressed in the public service through its adoption of the Batho Pele principles (Fakir, 2007: 10).

The DSP discourse has not brought with it meaningful change towards the principles of *Batho Pele*<sup>34</sup>. On practical level the life circumstances of the marginalised people and the legitimacy of the ruling party continues to worsen. The new political parties such as Economic Freedom Fighters (EFF) and Agang are seeking to exploit the falling legitimacy of the ANC as a party – especially to the marginalised “with nothing but their shackles to lose”(Khan, 2013: 584).

Practically, if both paradigms were to be compared in terms of outcomes, the SDP would represent the true dream for South African majority but again the ruling party continues with lip-service to it.

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<sup>34</sup> Batho Pele (‘people first’) is an approach to service delivery adopted in 1997 by the department of Public Service and Administration. Its main emphasis was to instil ‘people first’ ethical standards in employees in public services with the aim of improving living conditions through efficient public service delivery (The Department of Public Service and Administration, 1997).

Arguably, in trying to please different opposing forces from the left and from the right in the ANC and its Alliance partners, the DSP and SDP run concurrently in the ruling party's documentation. For instance the ANC argued:

The first attribute of a developmental state in our conditions should be its strategic orientation: an approach premised on people-centred and people-driven change, and sustained development based on high growth rates, restructuring of the economy and socio-economic inclusion (ANC, 2007:12).

The paradox is clear here, why is the ANC using the term 'developmental state' to describe an aspiration that is social democratic? This is because what the quote describes is not the DSP but a SDP which indeed has been always part of the 'soul' of the ANC during the liberation struggle (Hirsch, 2005). President Zuma, in his State of the Nation Address continued the paradox when he argued:

We will introduce a National Health Insurance scheme in a phased and incremental manner. In order to initiate the NHI, the urgent rehabilitation of public hospitals will be undertaken through Public-Private Partnerships... A developmental state requires the improvement of public services and strengthening of democratic institutions (Zuma, 2009).

If the NHI is being introduced, it constitutes a crucial 'score' for the majority of people who are marginalised and cannot afford medical aid in South Africa. On the other side of the coin, it is difficult to understand how the proposed DSP will strengthen democratic institutions as mentioned and this reflects a mere hodgepodge in which 'nice to hear' phrases are used by the ruling party. The Green Paper on the NHI explicitly recommends a system of health care based on social democratic values and principles of universality and social solidarity. Arguably, the reference to DSP is in fact a 'Trojan Horse', which allows orthodox policies to be smuggled back in – an underlying continuity with GEAR. This continuity with GEAR related policies is difficult to notice because many aspirations (universality and social solidarity etc.) are bundled up with the DSP discourse. The SDP is not 'seriously' being discussed because it is being considered to be ideologically weak compared to 'developmentalism' in the DSP. Forslund (2013) points out that there is no sign of NHI in Treasury's budget plans:

The Department of Health and the Treasury are miles away from each other in their vision of a reformed public health sector. The gulf in numbers reflects of course an ideological gulf and two kinds of politics. In short: the Treasury does not want to confront the private insurance industry and the private health oligopoly (Forslund, 2013: 1)

This is also in line with the general disregard for the government procurement aspect of the NHI as the liberal thinking is that “A government attempting to plan and/or provide health care to an entire nation is confronted by the insurmountable obstacles faced by centrally planned and coordinated systems” (Biermann, 2013). Despite this lack of faith in the NHI, the ANC, as its practice, has continued to promise that the NHI will be implemented in the next five years (ANC, 2014). This again illustrates how the DSP and SDP run parallel in the ANC as a party and in government’s official documents – causing unproductive vacillations in the policymaking processes. The ANC has remained the major party in government since 1994 and it arguably has an advantage now if a conservative transition was inevitable during 1994. Such autonomy allows the ruling party to choose the suitable growth route with less veto points than would be the case in a government of national unity. The policy frameworks however still continued to be formed within the ‘twilight zone’ as described above. The NGP for instance argued:

The New Growth Path recognizes the role of an effective, developmental state in achieving broad-based employment growth...This growth path requires that the state (a) facilitate national and workplace productivity accords, (b) support community organization, including through the Community Works Programs and other delivery mechanisms that build community and collective action, and (c) strengthen existing institutions for social dialogue (EDD, 2010: 28 & 30).

It is again clear that both DSP and SDP were mainstreamed into official government policy frameworks and clear also is the fact that besides the DSP having more publicity, the SDP is strongly echoed in the documents. Publicly there is less mentioning of SDP save for its elements such as social dialogue which again has been thinly developed as comprising the coming together of top union leadership, government representatives, business and other representatives of civic organizations. This is, as Pillay (2007:87) noted, “A re-commitment to a veneer of elite participation and is far from the substantive democracy embedded in the Freedom Charter's slogan – The People Shall Govern.” The thin conception of social pacts also strengthens the argument that both paradigms (DSP and SDP) have not been developed and may be regarded as ‘lost alternatives’ in South Africa.

To the ruling party’s credit is the recent acknowledgment that:

We are also experiencing a difficulty in finding the correct balance and sequencing between ‘developmentalism’ and ‘welfarism’ (ANC, 2012: 11).



Had the above been clear about the ANC's stance on policy earlier in 2007, the DSP would have not received such wide acceptance in the public and it is clear in this acknowledgment that democratic dialogue is better than trusting floundering elites. Instead the usual top-down approach (non-negotiable) political style continued from a party that acknowledged later that it was floundering. In the same article, the ANC concluded:

The ANC therefore seeks to build democracy with social content. Informed by our own concrete conditions and experiences, this will, in some respects, reflect elements of the best traditions of social democracy (ANC, 2012:16).

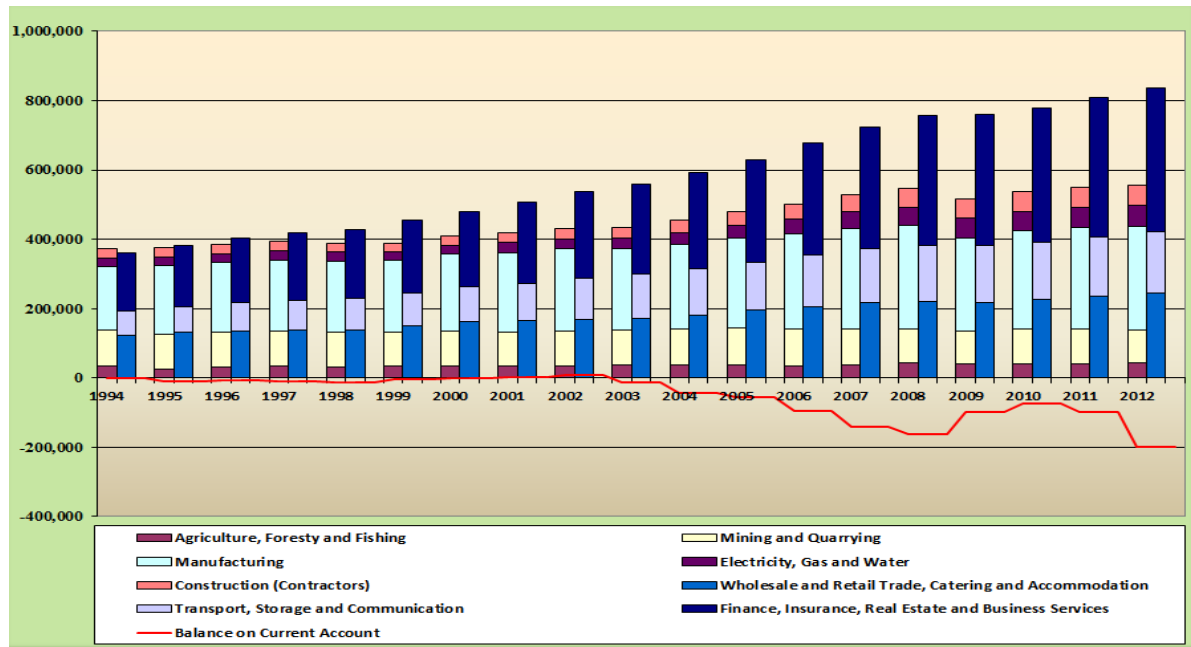
If what the nation needs are best traditions of social democracy, one wonders why the DSP has been a dominant story elevated beyond the SDP. This can serve to reveal that the DSP itself might have been part of an electioneering strategy with an inclination towards the 'developmentalism' ideology which was easy to 'sell' given the objective condition of slow economic growth. This was strengthened in the Zuma regime, which gave an impression that the state was up for the task of discarding old orthodox approach to economic policy in favour of other alternatives. To support this process, rhetoric on 'democracy with social content' was also used to placate the left while the older trajectory has been maintained. It is also necessary to show that the call for the DSP in South Africa was flawed because it seemed to be rooted in the 20<sup>th</sup> century understanding of the term.

### 4.3 The 21<sup>st</sup> century developmental state for South Africa?

Capability expanding services are always "co-produced." Delivery to passive recipients produces results that are sub-optimal at best and counter-productive in many cases. Accurate information on collective priorities at the community level and effective engagement of communities as "co-producers" of services is the *sine qua non* of a successful 21st century developmental state (Evans, 2007: 60).

Implicitly, Evans's description of the 21<sup>st</sup> century DSP includes core features of social democratic system as developed in section 2.5. The call for the DSP in South Africa must not neglect, as it seem to have done, two important issues. The first is that the times have changed. The second issue is that in South Africa whatever policy the government adopts needs to be contextually relevant. It should be suitable for the addressing of issues – such as unemployment/skills problem, poverty and inequality – which constitute the core legacies of South African history.

*Fig4.1 GDP by production and consumption sectors, 1994 – 2012 and Balance on Current Account (R million at 2005 prices)*



Source: The DTI's IPAP (2013).

Firstly as figure 4.1 shows, South Africa's modest economic growth since 1994 has been chiefly through the contributions of Finance, Insurance, Real Estate and Business Services. Manufacturing has not grown fast enough in South Africa since 1970s and is clearly outstripped by the services sector (Tregenna, 2008; Gelb, 2010). The importance of services is even more apparent when the services sectors are combined as whole. The nostalgia for building a developmental state seems misplaced because it assumes that South Africa still has an opportunity to replicate 20<sup>th</sup> century mass production and employ most of its citizenry in traditional white-collar and blue-collar jobs (See Bernard and Boucher, 2007).

The latest IPAP (2013) also argued that most jobs since 1994 have been generated in the services sectors as compared to manufacturing which declined by almost 20% from 2008 to 2009 due to the financial crisis. It further added that:

Manufacturing employment continued to decline from the fourth quarter of 2011 onwards, but seemed to have stabilized in the second and third quarters of 2012. The general trend, however, is a steady and steep decline of manufacturing sector employment (The DTI, 2013:18).

From the above quote, it is clear that the South African economy is not heading towards a 20<sup>th</sup> century typical standardised mass production and mass employment in vibrant manufacturing industries. The DTI, (2010) added to this notion, critically, by arguing that banks are not willing to channel funds into new firms (such as downstream manufacturing industries) as these may require longer grace periods for loan repayment and this limits the prospects of the growth in manufacturing. As discussed in chapter 2, this is where the Korean EBP and Japan's MOF managed to 'break the mould' in terms of channelling finance towards local industrial development. This also reshaped the macroeconomic fundamentals towards domestic orientation unlike in South Africa in which big firms were allowed an option of investing elsewhere (Nattrass, 2013; Ashman *et al.*, 2010). Khan in particular summed it up by arguing that, "...the conglomerates dominating the economy are now absorbed into the broader transnational capitalist class project where global financial capital, given its greater fungibility and mobility, and hence structural power, sets the agenda" (Khan, 2013:579).

Lack of planning cohesion in South Africa is worsened by the perceived dominance of the NPC viewed by other ministries which are against the NPC becoming a 'super ministry' (Mkokeli, 2013). Without bureaucratic cohesiveness, planning and coordinating, as observed in the Korean EPB, will be difficult and competition between ministries and institutions is unavoidable. Coetzee *et al.* (2012) aptly captured this by arguing that the South African government is:

...not making sufficiently clear which department is in charge of economic policy. Numerous government departments, including the departments of Economic Development, Trade and Industry, the National Treasury and the National Planning Commission, are involved in devising strategies for the economy, and this has led to some ambiguity, especially as the level of co-ordination between these departments is not always adequate, and the alignment between the various policy documents they produce is not always entirely clear (Coetzee *et al.*, 2012:6).

A critical feature in South Africa is that while numerous government departments seem to champion policy goals which do not adequately complement each other, the political realm keeps emphasizing the DS rhetoric (ANC, 2014). As a result of this, it is difficult for government agencies to adequately coordinate the implementation of activities in programs such as the Special Economic Zones (SEZs) and Industrial Development Zones (IDZs). In this macroeconomic environment of institutional 'monotasking'<sup>35</sup>, reconciling agendas of different ministries is also difficult because of the often

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<sup>35</sup> Mkandawire, (2009) argued that 'monotasking' refers to the reduction of institutions into focusing on "... a standard set of often imposed policies..." which in South Africa maybe seen through SARB's main emphasis on inflation targeting unlike on other policy

conflicting and in some instances overlapping mandates. Roos (2013) argued that the DTI's industrial policy (IPAP) is actually usurping the role of the treasury by constantly widening its scope and indefinitely promising support many industries. Clear in Roos' argument is that the Treasury is superior and all other plans should be guided by its directives. Another similar example is the SARB's emphasis on inflation targeting and stabilization policies. This makes the IPAP's 'teeth' limited because it is located in a fiscal-prudence-biased macroeconomic environment (Pons-Vignon and Segatti, 2013). Focusing on Industrial policy, however ambitious, without realigning the macroeconomic framework and finance in particular is not effective. Burger (2013) argued that IPAP has failed to become the lynchpin of South African economic policy due to the DTI's limited budget allocation from the National Treasury. The balance of power in South Africa has not shifted from finance and international financiers to the state and the DTI's IPAP projects are thus circumscribed. Critically, in South Africa, the 20<sup>th</sup> century DS seems to be impossible due to the nature of the available developmental agencies which seem to be far from achieving the centralised cohesiveness seen in Korean EPB. There is no serious commitment to development finance and the reliance on the private banking system is opposite to what brought success in the Asian DS. In South Africa the financial sector's sophistication, resembling those in developed countries, has been applauded however Spratt (2009: 297) argued:

...financial sector development is not an end point in itself. Its sole purpose – which must always be born in mind, but is too often forgotten – is to facilitate developmentally beneficial activities in the real economy, and so contribute to national economic progress and poverty reduction. Success or failure should thus be judged purely against this criterion.

Mohamed (2007) argued that the finance sector in South Africa has not been of much benefit to the poor in the 'second' economy. This is because the number of jobs created in the finance sector do not accommodate low to semi-skilled jobless people and access to finance is difficult for the poor due to lack of assets for security. Control of the financial sector may also thus help, as it did in Korea and Japan, for South African finance to be developmental in the long term rather than short term speculative finance moving in and out of finance markets.

### *The primacy of social services*

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areas such as employment creation. Recent (January 2014) increase in repo rate by 50 basis-points got the emerging market economist (Attard Montalto) to reemphasise this 'monotasking' by arguing that, "it was not the MPC's job to address "structural growth problems", and that it could hike rates even though it expected economic growth to be weak." (*Business Day*, 30 January 2014).

While the South African economy has been regarded as a premature de-industrialization case, focusing only on how manufacturing can be revitalised may delay the ‘ignition’ of capability enhancing social services. The current ‘jobs for all’ fantasy is premised on the notion that the formal economy will absorb everyone thus the importance of government’s public works is even frowned upon by the myopic mainstream thinking. Friedman (2014) puts it frankly:

The political parties might cover their backs by promising "job opportunities", not jobs. But, in reality, they know they are adding to the national debate’s obsession — how to achieve that great day when all adults will set off for their job in an office, factory or shop. This is a costly distraction because, whatever we do, that day will not dawn in decades, if at all. The debate will become real — and useful — only when we stop talking about how to achieve this and begin a serious conversation on what to do to enable people to live productive lives outside formal workplaces (Friedman, 2014:1).

While industrial policy (and particularly policies to promote manufacturing) remains important, what this section illustrates is the fact that the conceptualization of the DSP in such an era of ‘tertiarization’ is much more complex. The conceptualization is even more problematic if the DSP is based on the ‘fantasy’ that it will lead to the fulfilment of ‘jobs for all’ dream.

One example that illustrates the complexity of the 21<sup>st</sup> century DSP is increasing precariousness in the service dominated era (Amsden, 1989). Such precariousness of long term standardised jobs requires different institutional setup which may have not prevailed in the 20<sup>th</sup> century DSP and this again opens a gap for the SDP whose logic is very compatible with the growing ‘tertiarization’ of the 21<sup>st</sup> century economy.

The rising level of services in South Africa has not changed the plight of many marginalised (Mohamed, 2007). The main issue is that the turn to a ‘developmental state’ should not neglect capability enhancing services – which in South Africa has been neglected regardless of growth in conventional services such as finance. With the low level of skills in South Africa and the general 21<sup>st</sup> century employability requirements, the top down approach to development, as happened in the Asian 20<sup>th</sup> century DSP, is less applicable. In other words, the state that ‘delivers’ development without empowering the citizens may not be an effective state in the current era regardless of scoring high on GDP growth. Instead, what Evans (2010) postulated seems to be more applicable – which is implicitly social democracy:

The bottom line of these propositions is simple: a 21<sup>st</sup> century developmental state must be a ‘capable enhancing state’. Expanding the capabilities of the citizenry is not just a welfare goal. It is the inescapable foundation of sustained growth in overall GDP. [...] Without accurate knowledge of what kinds of collective goods the citizenry needs and wants, states can invest vast resources but fail to enhance capabilities. Active democratic structures are the necessary foundation for effective economic action (Evans, 2010: 38).

For Evans, there is nothing sacrosanct on claiming to be a ‘developmental state’ and the state needs to be indeed ‘developmental’ as he reiterated that “no developmental state no development” (Evans, 2010: 37). What the ‘developmental state’ does in the 21<sup>st</sup> century, however, is the main issue and the state needs to be centred on enabling the citizens to be economically active by providing them with capacity building public collective goods. In other words, in contrast to the version of the DSP emanating from the ANC, the days of alliance capitalism encompassing government and a patriotic bourgeoisie are gone – as discussed in chapter 2. This kind of approach will only undermine investments needed for capability enhancing services such as education and health. This approach of having the state and big business steering development will only leave the government ‘betting’ on capital to solve capability enhancing and welfare enhancing projects. This is why Evans (2010) argued that the state is very important in development policy since it is public collective goods that matter for welfare and capacity enhancing in most cases compared to what private businesses may focus on.

Another problem Evans stresses is a flawed approach rooted in 20<sup>th</sup> century DSP thinking, which is the emphasis on bureaucratic autonomy. It is dangerous to assume that once bureaucracy is established, it becomes a platonic one functioning as desired even without the need for democratic accountability (Chibber, 2002). Fryer (2009) supported this notion by arguing:

The problem with entrusting policy design to ‘expert’ consultants, as happened increasing after 1996, is that not only does the resulting policy often reflect a very narrow intellectual position; it is often badly designed because it has not been subjected to public scrutiny (Fryer, 2009: 33).

In other words what Fryer (2009) and Evans (2010) proposed implicitly is a developmental state which is nothing short of Nordic social democratic economies which stress the need for capacity enhancing welfare state policies (Esping-Andersen, 2010 & 2002b). Through democratic deliberations, Evans (2010) argued that the 21<sup>st</sup> developmental state must transcend the 20<sup>th</sup> century one to incorporate new forms of embeddedness with state–society relations strengthening the social sphere which is at the centre of capability enhancing. Social cohesion needed in South Africa can

only achieved by a state which is democratically embedded instead of the current concentration of political power in the top echelons of the ruling party and government<sup>36</sup>.

With the capability approach described above, the state would be in a position to empower its citizens to function in the 21<sup>st</sup> century as productive citizens. Instead, the DSP envisioned by the ruling party was ‘empty’ and leaned more to the 20<sup>th</sup> century prototypes thus becoming a misfit to the 21<sup>st</sup> century. The next section will demonstrate that the DSP envisioned by the government was in fact disempowering the majority instead of becoming an enabling state. This will be done through the lens of the ‘welfare state’ which the government has denounced often in its discourse of ‘building’ a developmental state.

#### **4.4 The rejection of the ‘welfare state’: A case of *throwing the baby out with the bath water***

Having pursued orthodox economic policies in the first decade of its democracy, South Africa took the liberal stance on the welfare state and this partly explains why the SDP has been trumped by DSP thinking within the ruling party. Denouncing the welfare state by the state officials and the general indignation against it from the media commentaries has painted a very bleak picture on the possibilities of a SDP in South Africa. This is in line with what institutions such as the World Bank<sup>37</sup> have always advocated and many phrases are used such as ‘creation of dependency, discourage people from working/creating indolence and ‘welfare state is unaffordable’. Perhaps the extreme opposition to the welfare state idea came from the Texas governor Rick Perry’s remarks in 2011 when he called the social security a ‘Ponzi scheme’ and this sparked shrill debates internationally (O’Connel, 2011). In South Africa in particular, the language of dependency has been common both from the government and from independent commentators. Zuma, speaking on a business question and answer session in Cape Town also reiterated the same notion on the welfare state:

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<sup>36</sup> The 2013 Financial and Fiscal Commission reported that the municipalities in South Africa were not renewing and maintaining water and electricity distribution infrastructure (with an estimated value of R1.156 trillion) which may worsen service delivery in the next five years if drastic action is not taken. Von Holdt (2010) argued that in South Africa, the bureaucratic system in hospitals has been captured by black class formation with more black workers taking higher positions and the whole system becoming ambivalent to skills and bureaucratic authority. Burger (2013) also argued that cadre deployment and the need to transform the racial composition of civil service meant the loss of skills of long serving white technocrats.

<sup>37</sup> Fine (2013) argued that The World Bank evade the use of the phrase ‘social policy’ but rather use the elements of its domain such as social sectors, social protection and social development and as a result creating operational and artificial barriers to holistic social policy.

We cannot be a welfare state, we cannot sustain a situation where the social grants are growing all the time and think it can be a permanent feature. I am certain we will come to that point where no one will want to sustain this (SAPA, 2011).

In the Budget speech, Gordhan (2011) also supported the president as he captured the dependency issue in a different way:

Government must teach its people to fish; not be suppliers of fish. The latter is not sustainable; the government pond will never be able to supply more fish in twenty years than it is doing now to the ever growing masses of people of this country. Let's work to reduce dependency and give back dignity that was eroded by our past (Gordhan, 2011:41).

These quotes reflect that the mantra of dependency is common in South Africa. Such utterances serve to legitimise "...a constrained tax policy that shies away from a more radical redistribution of corporate and personal incomes, and favours tax cuts for the rich (Hercules, 2013:20). In fact, 'dependency' cannot be construed negatively in South Africa. Ferguson (2013:173) emphasised that it is actually via relations of dependence that most of the marginalised people survive and "...those who are able to access resources as dependents of the state are themselves the source of income for others who we might term sub-dependents."

This understanding shows that rejecting the welfare state on the basis of dependency is not justifiable. Instead, the government needs to venture into trying to understand how dependency works in the communities and how it will come up with a suitable welfare state with desirable forms of dependency. Friedman (2012) argued that the people who receive the grants use them "...far more creatively and far more intelligently to sustain themselves and people around them" (Friedman, 2012:1).

According to Bosch and Lehndorff (2005), an increasingly common view about welfare is that:

The social sphere is not an obstacle to but rather a possible source of economic development. As knowledge plays an increasingly important role in economic development, services that help to develop and maintain human capital have become a focus of attention. The main activities involved here are education, training, health and care services (Bosch and Lehndorff, 2005: 10).

This perspective transcends the current South African acknowledgment of services sector which only focus on conventional services such as tourism, finance and banking. It is not only important to improve the welfare of the citizens but it is important for the 21<sup>st</sup> century human capital

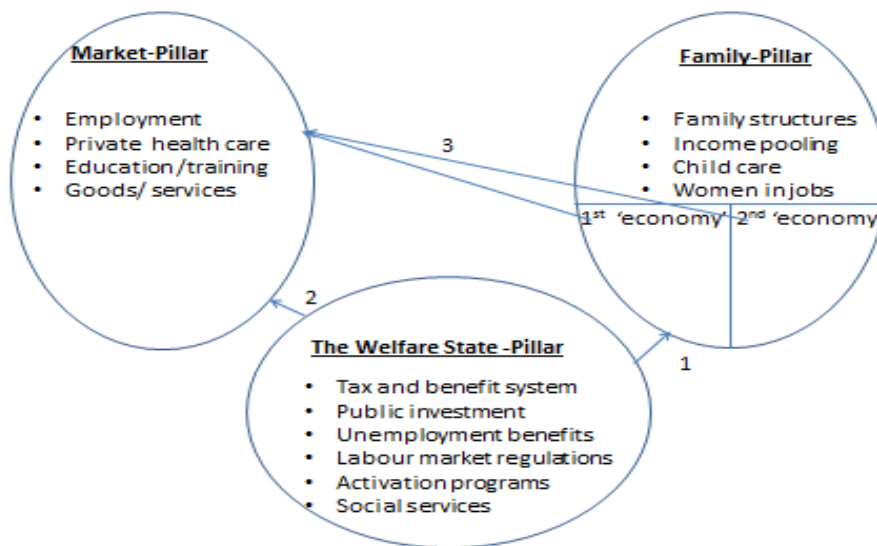


development. As discussed in chapter 2's section 2.5, the service intensive Scandinavian economies managed to improve their skills regime making use of complementary labour market activation programs. The skills development was facilitated because the 'welfare state' provided adequate benefits such as unemployment protection which acted as an incentive for workers to seek more training without fear of losing their jobs and therefore income. The interconnectedness of labour markets, education/training and the welfare state thus cannot be undermined in the 21<sup>st</sup> century 'developmental state'. Even the call for flexible labour market policies typical of the European 'flexicurity model' (see Murphy, 2012) is difficult to achieve once the welfare state is abandoned. Esping- Andersen (2002b) captured the whole story better:

National accounting systems distinguish between current consumption and investment, but social accounts do not—except in rare cases such as building hospitals. It is basically assumed that social outlays are an unproductive yieldless consumption of a surplus produced by others.[...] Much of what we call social protection of children, youth, and families— or what we call 'women-friendly' policy—is a mix of 'consumption' and 'investment'. It is admittedly difficult, perhaps impossible, to draw a precise line between the two. But the need to rethink our social accounting practice is gaining urgency for every year we move closer towards a full-blown knowledge-dominated production system (Esping-Andersen, 2002b: 8 & 9).

Treating any social outlays as 'yieldless' seems to be the order of the day in South Africa. Persistent unemployment entails that the market pillar is failing to provide welfare for the jobless. The family pillar, as a result is burdened, most importantly because the government pillar (welfare state) is being dismissed unjustifiably on grounds of dependency. This is more problematic when the 'first' and the 'second' economy scenario is considered because the gap between these two economies cannot be closed by the family pillar of welfare in the face of market pillar failure and government dismissing the 'welfare state'.

*Fig 4.2 A heuristic illustration of the South African welfare production*



*(Based on Esping –Andersen, 2002)*

The market pillar in South Africa, like elsewhere, is the chief producer of welfare as people get employed and through their wages are capable of ‘buying’ their welfare from the markets. In South Africa however the market pillar has failed to allow all citizens to access jobs hence they cannot obtain welfare from the market. Arrows marked (3) captures the fact that differently resource-endowed families from the ‘first’ and ‘second’ economy are expected to use market welfare. The obvious outcome is that only families from the ‘first’ economy will access and fully enjoy the welfare from the market pillar. Arrow (1) illustrates the potential of capacity enhancing policies which will equip citizens, especially from the ‘second’ economy however the tendency has been for cash transfers to be regarded as substitutes rather than complements for capability enhancing services (see Fakir, 2007). This is also in line with Lavinias (2013) who argued that the Brazilian Conditional Cash Transfers (CCTs) have not been complimented by more investment in public social services (Arrow 1). The impression that government has dealt with the poor is thus flawed as she argued, “Precisely the feature that has made CCTs so popular—their residual nature and cheapness—helps to make them ineffective in reducing poverty in the long term” (Lavinias, 2013: 35). The same is true for the South African social transfers which effectively have been keeping the poor alive without complementary public social services to enable them to be independent economic agents (Adesina, 2008).

Fig 4.3 below captures the failure of liberal welfare regime more succinctly using the National Income Dynamic Studies (NIDS) findings.

*Fig 4.3 South African Poverty Dynamics: Three-Wave Poverty Transition Paths*

2008	2010	2013	Percentage
Poor	Poor	Poor	30%
N-poor	N-poor	N-poor	29%
Poor	Poor	N-poor	12%
Poor	N-poor	N-poor	8%
Poor	N-Poor	Poor	6%
N-poor	Poor	Poor	6%
N-poor	Poor	N-poor	5%
N-poor	N-poor	Poor	5%

Source: Finn and Leibbrandt (2013)

Amongst those who were regarded as poor in 2008 survey, 30% have not managed to escape poverty in five years till 2013 and 29 % of the non-poor (N-poor) maintained their status. In this regard, the pattern suggests entrenchment of poverty (despite increased welfare spending), and given that this is on the basis of a very low poverty line.

The picture is gloomy when considering the fact that the poverty line used is R 515 which remains controversial because those who earn just above R515 are regarded as non- poor. This entails that the poor people are trapped in what Esping –Andersen (2002: 1) regarded as ‘lifelong entrapment’ with the whole system becoming the “post-apartheid class abyss”. This, in South Africa, has the effect that the cash transfers received by the poor become sacrosanct entitlements prone to create political patronage for the ruling party – “where those on the wrong side of the class abyss are the decisive voting bloc” (Fryer, 2009: 17). It is crucial to point out that the problem is not cash transfers per se, but the fact that they have not been a part of a larger package of policies aimed at capability enhancement and empowerment. If meaningful improvement is to be done for the poor, the welfare

state initiatives on active labour market policies<sup>38</sup>, public investment in social services is crucial in holding the system together as Esping –Andersen argued:

Too often, our attention is myopically focused on government. Should it shrink, grow, or do things differently? This leads to poor policy analysis because any specification of government's obligations has second-order effects on markets and families. [...] *The real world of welfare is the product of how the three welfare pillars interact* (Esping-Andersen, 2002: 12 & 14 *my emphasis*).

The failure to view the system as a whole is problematic and only lead to policy fragmentation which will cause significant unintended consequences. For instance the lack of capability enhancing policies entails that the poor people will be incapacitated to function in the 21<sup>st</sup> century and thus will permanently fall back to the state support system. After identifying the ‘dualised’ economy, social grants would not be enough to make material change that will make ‘those<sup>39</sup>’ in the ‘second’ economy (mostly black and poor) to enter into the ‘first’ economy. South Africa’s current welfare regime only addresses poverty provided the poverty line is low and this, combined with low social services to poor communities; does not put a slight dent on the issue of capability enhancing.

What the South African policymakers have done is to try to implant a ‘welfare state’ on a liberal market economy and with destitution increasing; they extended social welfare payments to even more people. With these increases in welfare payment the reaction became ‘we are not building a welfare state’ – which they ironically actually allowed to grow on its own accord. The architecture of the South African ‘welfare state’ is thus bedevilled by itself through poor organization and the fact that it simply amounts to cash transfers to the poor neglecting other social services. Rather than *throwing out the baby with the bath water*, a different approach needs to be taken for the South African economy to have a functional ‘welfare state’ that puts emphasis on enhancing capability of the citizens. In other words, even blunter, there is no welfare state in South Africa, instead there are fragmented social welfare programs keeping the marginalised ‘second’ economy people surviving.

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<sup>38</sup> These policies are very crucial for South Africa because the demand for intermediate skills has fallen and it is those with university education who have a chance for a decent job while the rest remain an underclass (Fryer, 2009).

<sup>39</sup> It is almost appearing as if the ‘second economy’ is comprised of undesirable aliens as Friedman (2013) reiterated, “This opposition (*against social grants*) expresses a deeply held prejudice: grants take money from hard-working, middle-class citizens and give it to “those people” who misuse it and want to sponge off respectable people.” This, if allowed to go on, will only undermine social cohesion which South Africa is seeking to build.

## 4.5 Conclusion

What this chapter has demonstrated is that the internal discursive formation which started in the second decade of the post-apartheid South Africa brought the question of alternatives to the fore. This happened because of the growing discontentment with GEAR related economic policies pursued since 1996. It brought a new impetus towards other forms of development policy frameworks which place a greater role of the state in policymaking. The developmental state paradigm (SDP) was evoked but it did not develop beyond being a declaration by the ruling party and was never implemented in a coherent fashion. Running parallel to the DSP discussions was the implicit social democratic paradigm (SDP) whose elements the ANC kept alluding to in their documentation. As argued in this chapter, neither the DSP nor the SDP were adopted on practical level and thus the internal discursive processes did not represent, as was the similar case in early 1990s, a genuine embrace of ‘lost alternatives’.

The South African trajectory remained a neoliberal one despite the ‘left’ euphoria which developed at Polokwane conference. As Pons-Vignon and Segatti (2013) argued, interests of the landed elites and the imperatives of political survival of the ANC seem to dampen adoptions of possible alternatives. Natrass and Seekings (2005) illustrated this more aptly through what they called *insider and outsider* compromises in which the former refers to the fact that the state and big businesses have locked themselves in a ‘high road’ of high wages and high profits but with low employment characteristics. Sustaining this trajectory is the *outsider compromise* in which the state conducts social welfare programs for the underclass to maintain their political acquiescence.

Instead of using the ‘welfare state’ elements to enhance capabilities of the citizens so that they can become an embodiment of human capital relevant for the 21<sup>st</sup> century knowledge based economy, indignation against the welfare state was profound. The 20<sup>th</sup> century DSP inclination of the ANC does not empower citizens to become active citizens because it focuses on a top-down expert driven bureaucratic autonomy which does not allow state-society embeddedness. As a result the ‘second’ economy interventions do not consist of capacity enhancement policies such as access to quality education, health care and other life changing opportunities enjoyed by those in the ‘first’ economy. Instead policy intervention for the second economy is only represented by the meagre social transfers done on humanitarian survival basis which undermine the social citizenship status of the poor.

## CHAPTER 5 MANGAUNG, THE NATIONAL DEVELOPMENT PLAN AND BEYOND

### 5.1 Introduction

Policies were implemented which radically increased the income of workers and the poor. Government and Party leadership was changed and important policy shifts were engineered, regaining the support of worker and peasant organizations, which led to a huge increase in support from the masses. By the end of Lula's second term (2010), surveys put his support at 80%. This turnaround is what we term the 'Lula Moment' (COSATU, 2012: 12).

The call for a 'Lula Moment' by COSATU in the run-up to Mangaung<sup>40</sup> recalls the exuberance of the call for a 'developmental state' by the ANC in the run-up to Polokwane. Policy claims are easily made, sometimes with a genuine desire, but in most cases the implementation of such policies may soon prove to be difficult and the energy with which the claims were made will begin to fade as well. There is nothing wrong with learning from other countries which might have dealt with similar problems. The problem, however, is a continuous and inconsistent vacillations of what South Africa should become and claims made without considering why for instance South Africa has not manage to create its own Mbeki/Zuma moment so far.

This chapter is aimed at analysing whether the latest South African National Development Plan (NDP) approximates a distinctive vision whose effects will change lives for the better – by addressing the key problems of unemployment, poverty and inequality. The first section will give a background of how the NDP has fared ideologically in South Africa. Section 5.3 seeks to establish whether the NDP consolidates the developmental state vision which characterised president Zuma's first term. The third section will investigate the NDP's postulations on social compact/ dialogue with the aim of establishing whether a real compromise can be attained between unions, businesses and the state. Section 5.4 will be on the primacy of politics, the ANC led alliance politics in particular, with its resultant implications for policy processes. The final section will conclude.

### 5.2 The National Development Plan: Old Wine in New Wine Skin?

So why is everyone so keen to accept or reject a document they have not read? Because they believe they know all they need to know about the NPC — the name of its chairman. The fact that Trevor Manuel chairs it — and, at least until recently, that Cyril Ramaphosa is its

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<sup>40</sup> Mangaung is a place in Bloemfontein South Africa where the ANC's 53th national elective conference was held. This conference saw the re-election of Jacob Zuma as the president of the ANC hence the call for a 'Lula moment' by COSATU since Brazil's Lula made radical policies in his second term of office.

vice-chairman — heartens pro-business interests because they see Manuel and Ramaphosa as politicians who take business and middle-class interests seriously. The left of the alliance opposed the NPC for precisely that reason... (Friedman, 2013: 1).

Friedman aptly captures the polarization of the debate on the current National Development Plan (NDP) which was adopted at the ANC's 53<sup>rd</sup> policy conference in Mangaung in December in 2012. The NDP was officially endorsed by president Zuma in his state of the nation address in February 2013 and was in the same month described as "the point of departure" by the Finance Minister Pravin Gordhan in his budget speech. The polarised debate about the NDP also reveals the ideological unevenness of the South African policymaking environment and whether policies will be implemented also depends on which ideology gets to be hegemonic at any particular time locally and internationally. Blindly accepting the NDP will not be noble if it is the one deciding the fate of the policy space hence the prevailing criticism both at ideological and objective level. For instance it is not a coincidence that the NDP has been accepted by the business leadership (Business Unity South Africa (BUSA) and the Black Business Council (BBC) etc.) and the Democratic Alliance (DA) while trade unions (COSATU) have challenged the plan.

With such wide acceptance in the government and business sector, it is interesting to consider how the NDP represents either continuity with the DSP enshrined in the NGP or a break in the state interventionism which the ANC seemed to have adopted from the Polokwane conference. In other words, can there be a case for COSATU and the unions' discontent with the NDP beyond ideological preferences highlighted by Friedman above. It is thus essential to engage with the NDP not only on its own merit but also try to understand it in terms of how it treats or proposes to deal with issues which previous policy frameworks have raised. Social dialogue/compact and pursuit of the developmental state are some of the elements which previous frameworks have raised and social compacts in particular continue to be considered essential if South Africa is to make significant dents on its golden triangle of poverty, inequality and unemployment.

The NPC took a multipronged approach in the NDP and it is difficult to come up with a comprehensive appraisal of the plan because one will have to be an expert in many fields (health, demographics, environment, social protection, capable and developmental state etc.). The stakeholders in the South African economies, such as unions, business sector and other civic organisations, had to find whether their interests were catered for in the NDP. This explains why the business sector agree with the NPC once it agrees with the business side of the plan and most

importantly, unions reject the whole plan once they consider it to be an anti-worker strategy (COSATU, 2013). The cabinet itself dismissed the entire chapter on foreign policy arguing that it was written by a consultant who did not understand anything about South African foreign policy (Magubane, 2013). At best one can describe the NDP as a framework to get all sectors to start working rather than a cast in stone given the current contestations. It is important, as this chapter seeks to do, to analyse the NDP and to diagnose whether it represent a move towards a people centred alternative growth path which the ANC signalled at Polokwane conference or is simply reasserting the current growth path – albeit using a language that is not obvious. The analysis of the NDP will be done through the lens of the main themes of this study which are DSP and SDP which are the main policy alternatives whose elements have been rhetorically present in the policy documents since 1994.

### 5.3 The Developmental State Paradigm in the NDP

The National Planning Commission has avoided using the concept of a developmental state, and instead talks about a “capable state,” a term which is increasingly used by the ANC in government. Whether this signals an ideological or conceptual disagreement with the concept should be clarified, so that we don’t cause confusion with a plethora of terms or by introducing concepts that may well be in conflict with existing ANC policy (ANC in *The Second Transition*, 2012: Para 191).

It is very noticeable that the ANC prior to the Mangaung conference was engaging the NDP critically and the above quote is a case in point. This was a very ‘healthy’ way of policy development but once the NDP was adopted at the Mangaung conference in 2012, the culture of critical engagement ended especially when the president announced that “Whoever criticises us must think twice” (Letsoalo, 2013).

It is clear as well that there was some form of ideological/conceptual disjunction between DSP envisioned in the ANC policies and the DSP emanating from the NDP. A very clear example is how in the early version of the NDP the NPC never used the word ‘developmental state’ but instead used the phrase ‘capable state’. The final version of the NDP ‘tokenistically’ modified its ‘Building a Capable State’ chapter to become ‘Building a Capable and Developmental State’. Burger (2013:17) referred to the addition of the term ‘developmental state’ as a mere “...textual ‘find-and-replace’ exercise in an effort to placate the left wing of the alliance.” This was done in such a way that nothing really changed in the chapter in terms of altering it to integrate the introduced



‘developmental state’ in a significant way<sup>41</sup>. The following sentences serve to illustrate how the ‘developmental state’ was only included to appease contenders without really altering the meaning of the chapter:

In a society with deep social and economic divisions, neither social nor economic transformation is possible without a capable and developmental state...

[...]

The National Development Plan highlights the need for a developmental state that is capable of driving the country’s development. Building state capacity is the most important step to achieve a developmental state (NPC, 2012: 408 & 409).

Dispensing with the DSP in the first 4 pages of the chapter, the NPC’s goal is rather to focus on professionalizing the bureaucracy by making sure that capacity is strengthened throughout the state system. On what needs to be done, the NPC proposes: the political administration interface need to be stabilised; making public service a career of choice; developing technical and specialist professional skills; proper governance of SOEs and strengthening local governance (NPC, 2012: 410). It claims that these norms are based on the international experience from which the NPC drew inspiration for instance its desire to strengthen the Public Service Commission is similar to what was done in most OECD countries. The message is clear that the NPC seems to adhere to the good governance mantra emanating from the global hegemonic discourse.

The Asian DSP was also known to be effective on its public bureaucracy and it is this *Weberian bureaucracy* which the NPC is evoking in its capable and developmental state chapter. Given the acknowledged lack of capacity and skills in the South African economy, there is a case for NPC’s proposals on building capacities in the public services and local government. An important factor which the NPC does not develop is the issue of bureaucratic autonomy which was important in Asian developmental states such as Japan and South Korea. The NPC (2012: 417) noted for instance, “Recruitment should be based on a rigorous meritocratic process...” The autonomy of the bureaucracy is a crucial area for South Africa because there has been much ambivalence towards skills and the authority of senior managers which has not been good for the development of

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<sup>41</sup> The belated addition of the ‘developmental state’ phrase in the final NDP does not correlate with substantial changes of radical proposals which are equivalent to the interventionist state in other ANC documents. The emphasis of the NPC on capacity brings back to mind the World Development Report (1997) and the Report of the Growth Commission (2008) (Trevor Manuel also participated in it) which both emphasised matching the state’s role to its capacities and developing capable and credible governments— signalling a move from ANC’s pro-interventionist developmental state.

bureaucratic autonomy (see Von Holdt, 2010). The following proposals do not add much value to the main problem of politics dominating merit in South Africa:

A formal graduate recruitment scheme for the public service; a career path for local government; make adequate experience a prerequisite for senior posts; a long-term perspective on training and management; improve the systems for skills development (NPC, 2012: 416).

Once the above is done within the current cadre-employment regime, the skilled technocrats will find themselves towing the party line thus undermining their autonomy since it becomes difficult for them to circumvent political choices (see Mkandawire, 2002). The NPC, by narrowly focussing on capability, has also not done justice to the continuity of the ANC's developmental state agenda and the insertion of the 'developmental state' did not add much to the final draft. The NPC shied away from issues of resource allocation and industrial policy which the Department of Trade and Industry (DTI) has been working on. This helps to strengthen the argument that the NDP remained fundamentally another variant of GEAR related proposals which stress rolling back of the state and elevating market mechanisms.

As COSATU observed, the NDP's strategy in the first phase fails even to acknowledge the NGP and IPAP's role in the new vision and instead the NPC focused on the administrative efficiency issues. Developing a parallel program that fails to integrate with the DTI and other government department's programs does not lead to more coordination of policies but to unnecessary policy competition between departments (COSATU, 2013). A good example of this departmental policy competition is how the Economic Development Department (EDD) has lost autonomy and has been subordinated by the National Planning Commission (NPC) located in the presidency – strategically headed by Trevor Manuel as the longest serving finance minister (Pons-Vignon and Segatti, 2013). One would have expected to see issues surrounding industrial policy introduced when the developmental state was belatedly introduced into the NDP but there is nothing of that sort<sup>42</sup>. A striking example is how the NPC skirted around mineral beneficiation issues by saying, "...in general, beneficiation is not a panacea because it is also usually capital intensive, contributing little to overall job creation" (NPC, 2012: 25). This constitutes a direct conflict with IPAP (2013) which

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<sup>42</sup> The DA actually argued that the latest IPAP was fundamentally flawed and was in fact in conflict with the NDP because it gave the government a huge interventionist role to play in the economy (Ensor, 2013). This brings serious problems because the NDP, being the latest policy framework, should have been aligned or at least recognise and explain why it thought the DTI is pursuing the wrong route. This gives a picture of planning *silos* which simply worsen coordination problems due to conflicts between departments.

regard beneficiation as an untapped opportunity which needs to be developed with much attention given to downstream beneficiation.

The NPC tries to display prudence by constantly evoking what other countries have done thus presenting its approach as inevitable and in line with best practices around the world. By aligning its framework with international ‘best practices’ the NPC obscures the counterhegemonic thinking on alternatives possible in South Africa. It argued for instance that “In many other countries public service commission fall under the executive arm of government. In South Africa, the Public Service Commission (PSC) has a greater degree of independence...” (NPC, 2012: 412). Displaying the South African DSP as the one that only requires a dose of efficiency neglects the reality of visible disparities of income and wealth – which requires a redistributive role of the state – which the post-apartheid state failed to unravel so far. So while the NPC’s move towards trying to deal with public service efficiency is welcome, it could have gone further to explain how the ‘efficient’ capable and developmental state would then deal with the golden triangle of poverty, unemployment and inequality. Making the municipalities more effective in service delivery is acceptable but it does not deal much with structural unemployment and neither does it reduce the growing gulf between the rich and the poor. The NPC’s ‘capable and developmental state’ is not anywhere near to what the ANC thought or at least ‘signalled’ to its electorate when it argued:

A developmental state is defined as a state that develops the capabilities to guide national economic development through *fiscal redistribution*, mobilization of domestic and foreign capital and other social partners, utilization of State Owned Enterprises (SOEs), *industrial policy* and *regulation* (ANC, 2012: Para 64 *my emphasis*).

The developmental state envisioned by the ANC, regardless of its amorphous nature discussed in the above section, at least recognises the need to go beyond the international orthodox emphasis on policies in order to deal with South African problems. Redistributive fiscal policy and industrial policy thus are the main policy tools proposed by the ANC for the current phase of the transition. This is not a wild claim because to see the wildcat strikes going on in South Africa and neglect issues of industrial policy and the redistributive role that can be played by the state is dangerous – neither is it fitting to think that the labour sector is holding South Africa back<sup>43</sup>. It is hard to envision

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<sup>43</sup> The reproduction squeeze is one of the key issues contributing to outburst in the industrial sector where workers continue to face the need for social reproduction since those who work are burdened with the need to support extended families on their meagre incomes thus causing higher inherent militancy in the working class (Arrighi *et al.*, 2010; Pons-Vignon and Anseeuw, 2009). The NPC (2012: 333) also acknowledged this fact by arguing that “Dependence on wage earners compounds existing wage pressure in the

how a very efficient public system proposed by the NPC will, alone, put an end to the strikes because that will not alter the current distribution of income and wealth.

The NPC's desire for less state is also seen in its less ambitious proposals on poverty, unemployment and inequality. It is true that the state need to create an environment which is business friendly but the NPC (with its pro-macroeconomic stability approach) has a vision that is based on a narrow definition of employment (25% as of 2010) which excluded about over 3 million *reserve army* of discouraged job seekers (COSATU, 2013). If it is a vision for the nation, why did the NPC shy away from a more telling broad unemployment measure which includes the discouraged people? Another seriously flawed approach is to target reducing poverty using a poverty line which is baseless, "No one should suffer poverty induced hunger, thus no individual should live below the poverty line of R419 (2009 prices)" (NPC, 2012: 363). Whether the vision for 2030 should be based on such a low poverty line is questionable given the current and future household needs for health and education<sup>44</sup>. This shows that measurements such as poverty lines conceal a lot more than they reveal because it is easy to announce that poverty has gone down by say 60% once people get to earn above the poverty line without material change in welfare. The 'poverty-line' thinking adopted by the NPC is only limiting the extent of the problem by marginally improving the condition of the ultra-poor with few more dollars than they already have – a chronic poverty centric approach. This is consistent with a 'residualist' welfare regime which the government legitimises by arguing that it wants to teach people 'how to fish' rather than supplying 'fish' indefinitely.

From this analysis, the 'capable and developmental state' envisioned by the NPC hardly escapes the mantra of "Growth is, above all, the surest way to free a society from poverty" (The World Bank, 2008: 14). This entails that South Africans have to wait for growth to raise the employment *waters* so that everyone will swim (Natrass, 2013). Will good governance, stable macroeconomic environment and a capable state, proposed in the NDP ensure that this happens fast enough? Maybe not, because GEAR also followed a similar route with a dead end which led policymakers to start to believe, by the end of the first decade of democracy, that South Africa needed an accelerated and

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economy and dependence on social grant recipients dilutes the anti-poverty effects of such grants, pushing households that are already poor even further into poverty."

<sup>44</sup> Swaminathan (2010) for example also argued against the poverty line chosen by Indian officials which was based purely on convenience and general acceptability and was not adequate to ensure adequate outcomes in health and education expenses. Such poverty line measurements are often abused by political parties when they want to appear that they have improved living conditions for instance the Indian Planning commission (2013) announced that poverty had gone from 37% to 21.9% sparking debate as many did not see any significant change of livelihoods (Choudhury, 2013).

shared growth with subsequent desire for a new growth path (Freund, 2013b). The chance of a DSP with an interventionist outlook is bleaker from propositions of the NPC and much more distant as the NDP advocates less state.

#### **5.4 Social Dialogue/Compacts and the Prospects for a Social democratic compromise**

Since the Marikina massacre in 2012 and recent wave of strikes in South Africa, the need for social compacts has been more urgent but no dialogue seems to be imminent. This may be due to the ideological contestations between the stakeholders as they tend to see any compromise as ‘selling out’. The call for social dialogue is not only at macro-level but the need for compacts has infiltrated micro level institutions such as; the need for an education and skills pact: to solve education crisis, labour pact: to deal with labour issues and environmental pact: to deal with environmental issues (NPC, 2012: 134, 205 & 313). With the previous chapters showing that social compacts have been featuring in most ANC policy frameworks, it is also important to consider how the NPC envisions this critical element to ensure that growth will involve shared benefits and sacrifices among all stakeholders.

The NDP also speaks in the language of social compacts both at micro level when it is addressing challenges in specific sectors and at macro level calling for “A social compact to reduce poverty and inequality, and raise employment and investment.” (NPC, 2013: 34). It may not be an exaggeration to argue that the NPC’s propositions on social compacts have not gone beyond the propositions from the ANC of seeing social compacts not as democratic imperatives but as mere tools for dealing with ephemeral problems. Treating social compacts as tools for crisis management is problematic. As in Ireland<sup>45</sup>, if social compacts are not ingrained into South African democratic processes but treated as events, there can never be growing trust from stakeholders whenever there is a call for such a compact. The NPC argued rightly for instance that:

Deep inequalities and the associated low levels of trust have a highly negative impact on economic development and make it harder to forge a social compact that could move South Africa onto a higher developmental trajectory (NPC, 2012: 458).

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<sup>45</sup> Murphy (2012) argued that the social compacts in the liberal Ireland were mere technical agreements meant to tame unions and unilateral pay cuts by the government after 2008 financial crisis entails that the Irish compacts were not anywhere near the Nordic system of democratic dialogue.

It is true that with current level of inequality and lack of trust, social compacts are difficult to forge but the NPC fails to address how the trust can be restored. It is problematic when the need for creating business confidence (NPC, 2012: 255) amounts to union's acquiescence to business demands without businesses reciprocating in any meaningful way other than through a promise to invest more for job creation. Some of the NDP's statements like, "The economy has neither grown rapidly enough nor transformed to ensure that all of society can progress" serves to give an impression that had the economy grown faster the society would be better with a fair distribution of income and wealth – a deterministic argument which also stresses low economic growth is the source of all problems such as poverty and inequality (NPC, 2012: 465). This is the reason why in the public debates, the NDP seems, to union movement and other groups, to be a pro-business agenda without a 'human face' or why some do not bother to read it because they know its origin. Such antagonism is never a good breeding ground for social compacts. The NPC also gave a bleak picture about NEDLAC arguing that:

Various accords have been signed between social partners and an institutional mechanism such as the National Economic Development and Labour Affairs Council (NEDLAC) exists. But because of the lack of strategic engagement among the social partners, focus on immediate sector interests and general questioning of each other's "bona fides", no effective partnership exists (NPC, 2012: 155).

This suggests that the NPC has less faith on social compacts and NEDLAC as an institution as well. With many reasons in its narrative of the failure of NEDLAC (NPC, 2012: 476-477), the NPC seems to propose, implicitly, that the government must go ahead, unilaterally, with the implementation of the proposed reforms outside social dialogue. This is however contradictory to the fact that the whole NDP is envisioned as 'glue' that will bind all stakeholders together. For instance the last chapter is on 'Transforming society and uniting the country' and its core message is that "A social contract could help propel South Africa on to a higher developmental trajectory as well as build a more cohesive and equitable society" (NPC, 2012: 458). It is difficult for social cohesion to be engendered when the state itself does not display the culture of compromise and dialogue when it comes to crucial reforms.

Downward wage moderation is presented as the key element of the South African social compact and with the current labour unrest it is difficult to see how workers will accept such a decrease in wages (NPC, 2012). This is worsened by the fact that employers have not in the past decade shown

any sign that they can increase investment and employ more even during the stable phases of the economy. In a recent Corporate Strategy and Industrial Development (CSID) report it was reported that South Africa has been seemingly in a *de facto* social compact of wage increases below productivity increases and calling for more wage restraint appears to be a further advantage to businesses (Strauss, 2013). While the debate has been polarised (see Forslund and Sharp, 2011), the real wage growth in South Africa is not determined by growth in productivity alone but by other factors which are external to the labour market (Klein, 2012). It is a common case in South Africa that any diagnosis of the economy will pinpoint labour as the source of all problems and this obscures the need to search other issues inimical to growth emanating from the state and business sector as key stakeholders of the economy. For instance Terreblanche (2012: 122) argued that the corporate sector enjoyed profitability, whose effect has been ‘trickle up’ in the period leading to the economic crisis and the sector has become globally oriented to the extent that it may not take initiatives envisaged by the NPC.

Social compacts present a social democratic compromise when done not from a crisis driven approach and they can bring in a culture of concerted policy processes with significant trust between stakeholders. However when compacts do not form part of the political culture, the real social democratic dialogue will be difficult to achieve. The NPC does pay homage to social democratic ethos by arguing that:

Active citizenry and social activism is necessary for democracy and development to flourish. The state cannot merely act on behalf of the people – it has to act with the people, working together with other institutions to provide opportunities for the advancement of all communities (NPC, 2013: 37).

The NPC speaks in a normative and symbolic way without giving further details of how such a society can be achieved. Arguably, the appeal to active citizenry presented by the NPC is very neo-classical as it makes social action individualistic due to its emphasis on self-reliance. This is seen by NPC’s emphasis on taming union movement and its desire to bypass politics of the ANC-led alliance by being a-political in its stance. Constant enquiries into the South African problems evoke the displayed by the NPC need for active citizenry, social dialogue, compromise, social cohesion and patriotism but nothing has been done beyond this talking.

In its ‘*Transforming society and uniting the country*’ chapter, the NPC is also vague. It borrows a lot of principles from the constitution but without putting a credible plan. It acknowledges for instance

that “Where the middle class opts out of public services, it no longer takes an interest in improving their quality... It is vital to promote values of responsible citizenship and solidarity” (NPC, 2012: 475). The need for more investment in social services for the society is stressed but it is difficult to see how this can be achieved without the state taking the lead. How these values of solidarism and responsible citizenship are going to be created remains a mystery especially if the social compacts have been thinly conceived not in a deeply democratic sense such as those in social democratic countries. This is also perpetuated by the fact that the adopted representative democracy is in fact a narrow electoral democracy in which citizenship rights enshrined in the constitution risk of being reduced into mere voting rights. Hollinger (1996: xiii) argued that the dark side of liberalism is that it “limits democratic participation to voting for competing elites who will vie among themselves for power until the next elections.”

Another striking similarity of the NDP with the IMF and World Bank is preference for social protection rather than social policy. While the NDP is awash with ‘social protection’ throughout the document, social policy only appears four times and the statement “Employment is the best form of social protection” is worth mentioning because it serves to divert attention from the need of a comprehensive welfare state to the focus on jobs (NPC, 2012). This emphasis on the ‘market pillar’ is undermined by the NPC’s unwillingness to endorse the ‘decent work’ agenda. Furthermore, it represents a continuation of the failure to envisage welfare holistically and of the resultant growth of public welfare spending by default rather than design.

Transfer payments in South Africa have remained *ad hoc* instruments unconstrained by institutionalized principles of citizenship rights. In this regard South Africa resembles Latin America. Lavinas (2013: 38) describes cash transfer programmes throughout Latin America (including Brazil) as “...offering governments an alibi for scaling back provision of public goods. They thus pave the way for a retrenchment of welfare rather than its expansion.”

The difference between this and what Morel *et al.* (2012) call a “social investment welfare state” is dramatic. Wadensjo (2008: 24) for instance highlights that there were 300 employment centres/offices in Sweden which provide information to job seekers and also ensures that job seekers comply with requirements for receiving unemployment benefits. This helps to strengthen its active labour market policies with the use of such ‘stick and carrot’ active labour market policies. The NPC’s reference to active labour market policies is rather cursory in nature reflecting the less



enthusiasm for government intervention in the labour market. The contradiction is clear with the ANC wanting to take credit for social welfare programs such as social grants which has helped the plight of the marginalised while at same time wanting to disassociate itself with the creation of the ‘welfare state’.

The prospects of a social democratic compromise are limited and the evidence is the NDP which raises the issues of universal health care but quickly dismiss it in subsequent arguments. The NPC thus raised the universal health care with an impression of ‘box ticking’ knowing that Dr Motsoaledi (health minister) has been championing universal health care, they argued:

Everyone must have access to an equal standard of care, regardless of their income. A common fund should enable equitable access to health care, regardless of what people can afford or how frequently they need to use a service (NPC, 2012: 334).

[...]

It will be undesirable if the guarantees or transfer benefits are too many or generous and hence contribute to an unsustainable fiscal position (NPC, 2012: 364).

Perhaps it is fair to say that this is as good as it gets for universal health care in the NDP and as shown above, the affinity to fiscal prudence is clearly counterpoising the call for equal access to standard health care regardless of income. The NPC brings an irrevocable truth about the South African situation but again no enthusiasm for it and besides being the 8<sup>th</sup> goal of the NDP in terms of what it seeks to achieve in the health sector, the universal health care does not appear anywhere in the priorities of the NPC after appearing as a goal. This lack of faith in fast-tracking universal health care system is also evident in the NPC’s notion that “NHI is a common endpoint for health reforms across the world” and the NPC seem to postpone the universal care to the coming 50 years (NPC, 2012: 339). It beggars belief that NPC concludes its chapter on health by arguing:

Contrary to the belief that private health providers cater for the rich, many poor people use services of general practitioners and private pharmacists. Traditional healers are the first health providers consulted by many people before visiting health facilities [*sic*]. (NPC, 2012: 350).

The contradiction here is clear. On the one hand the poverty line of R515 suggests that people earning more than this are ‘not poor’. On the other it is impossible to see how people earning even twice this amount will be able to afford GPs. The inadequacy of the ‘market pillar’ is simply wished away. Moreover, this does not tally with its objective to “Reduce the cost of living for poor

households...” (NPC, 2012: 61). This suggests that there is no real appreciation of the nature of the crisis of social reproduction in South Africa.

Another important observation is the fact that the NPC acknowledged the role of traditional healers<sup>46</sup> as if that would replace the need for planning for a universal care. This again confirms the agenda of the NPC of rolling the state back and given the universal health care relies on the state’s responsibilities, universal care would not be ideal for the NPC. It is also consistent with its emphasis on expenditure containment as it argued that “The balance in expenditure between consumption and investment will be key to delivering higher growth and employment.” (NPC, 2012:137). With the evidence from this section, it is clear that there is no fundamental move, in the NDP, away from hegemonic discourses about the role of the state in the modern era. The NDP neither represents the entrenchment of the ‘developmental state’ thinking from the ANC nor is it a move towards a social democratic compromise despite all its references to social cohesion, social dialogue/compacts and the whole chapter on ‘uniting the nation’. It is difficult of course for one to reach such a conclusion given the NDP is written in code and is replete with fine- looking phrases like ‘tackling poverty and inequality’, ‘need for social dialogue’, ‘building safer communities’ building a capable and developmental state and the list goes on in the glossy document.

To be blunt, the NPC sees no fundamental change in the current growth path but proposes relative improvement using an eclectic mixture of status quo common sense – echoing another variant of ‘end of history’. The multiplicity of targets for 2030 leaves one to wonder how the NDP will be effective in capturing all the ‘shoulds’ it envisaged and Terreblanche could not avoid speculating that the document can amount to a carefully crafted ideological propaganda. He argued that the variant of such ideological propaganda “...could be called the ‘ideology of targetism’. The aim of this ideology is to lull the general public, and especially the impoverished majority, into contentment until 2030” (Terreblanche, 2012: 122).

## 5.5 The Primacy of Alliance Politics in South Africa: worst enemies and best friends.

Reagan and Gorbachev started the process of moving towards the complete elimination of nuclear weapons through a candid and open dialogue and a belief that a nuclear war should never be fought. Their example should be a reminder to current and future leaders of what

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<sup>46</sup> The reference to traditional healers by the NPC seems to be another ‘box ticking’ impression which is an appeal to ‘political correctness’ since people (black Africans) in particular use traditional healers so the NPC had to appear to be embracing cultural traditions.

can be accomplished with just a pen, a few pieces of paper and a belief that today's problems should not be left for tomorrow's leaders (Saltoun-Ebin, 2013:132).

The world today is not determined entirely by fate but political choices made every day which shape present and future outcomes. In South Africa, the *fate axiom* dominates popular thinking about the end of apartheid (Lipton, 2007:124). What this reveals is that political leadership positions can present an effective opportunity to transform societies for the better even if there are entrenched constraints.

Whether any alternative (such as a 'developmental state') can be achieved will be a function of power politics and choices in the ANC and its alliance partners. The recent 2013 tripartite alliance summit suggests that despite inherent problems in the ANC led alliance, the partners find it important to keep it existing<sup>47</sup> The importance of the Alliance, both in the 'struggle' and in current politics, is widely acknowledged. However, because it is an 'informal', 'backroom' arrangement its exact nature is not always apparent. Plaut (2012) aptly captured it by arguing:

Hardly a day goes by without a reference to the Alliance, yet little is really known about just how it operates. Even its origin remains obscure. With no founding document and no written constitution, it is nonetheless the beating heart of South African politics (Plaut 2012: 4).

While attainment of democracy was unanimously the goal of the alliance partners, the economic policies from these partners are different and such divergence has arguably caused the alliance to be dysfunctional in the present era. Plaut (2012) summed-up the source of current differences by arguing that:

Yet the constituent parts of the Alliance brought with them marks of their past. The ANC had its inheritance as an African nationalist party, which had only embraced non-racialism during years of the Defiance Campaign and the treason trial of the 1950s. For the SACP, there was the revolutionary rhetoric associated with the ideology of a National Democratic Revolution as a first step towards a socialist future. And for the Trade unions of COSATU there was an emphasis on independence and democratic accountability to their members that arose from the distrust engendered by their experience during the 1950s 1970s (Plaut, 2012: 29).

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<sup>47</sup> Plaut and Holden (2012) also argued that the fact that the alliance has survived many trouble ridden decades signifies that it cannot be disintegrated easily. The *Mail and Guardian* (2010) interestingly argued "What appears at first as a super-brawl to the death is actually a mere game...the intra-alliance battles are like TV's World Wrestling Smack down. Of course there are real casualties, but the outcomes are predetermined, by and large, and the sanctity of the alliance remains intact. Only the uninitiated believe that the "Undertaker" really hates "Jonsina" in the make-believe world of wrestling."

In the current 'post-Mangaung' conjuncture, it is difficult to understand how the communist party will be independent after its key members (such as Gwede Mantashe, Blade Nzimande and Jeremy Cronin) adopted dual partisanship and are members of ANC's National Executive Committee (NEC). Butler (2013) argued that the SACP in the present era should "...own up for not being Marxists ...they are just weedy social democrats, albeit ones with certain unappetizing Stalinist tendencies" (Butler, 2013:1). In the current form, the SACP operates in such a way that it appears to be a faction in the ANC rather than a movement of the proletariat – partly explaining the increasing tendency of the workers to become militant outside these parties and even outside COSATU's leadership. This makes COSATU feel like it is the only legitimate representative for the working class and the refusal of COSATU General Secretary Vavi to be 'co-opted' into the national executive committee (NEC) is testimony to this (COSATU, 2007). In addition, the strong critics of the current NDP and other ANC policies emanate more from COSATU than from the SACP. A very crucial development is the recent concern raised by COSATU's president Sidumo Dlamini when he highlighted potential conflicts of interest in leaders of the federation who are closely linked to the ANC and SACP. He argued: "There is commitment to a war to remove some individuals who have been defined as enemies because they sit in the ANC NEC and in the SACP [SA Communist Party] central committee" (*The Sowetan*, 19 November 2013).

Due to the informal Alliance set-up, the ANC is not obliged to deliver on alliance promises (as it would if it were in a coalition government or had entered formally binding agreements at NEDLAC, for example). Furthermore, the existence of this 'informal' social dialogue 'crowds out' the development of more formal arrangements. For instance the ANC's Gwede Mantashe has been reported saying that "We can't debate until we are blue in the face... whoever is against it can take us to court and that's it. That's what should happen if we want the economy moving..." (*Business Day*, 23 July 2013).

The NDP does not even attempt to engage the dynamics of the alliance and it seems to be concerned with global and regional politics without explaining how national politics may shape the implementation of the plan. The NPC merely acknowledged that "No country can draw up its governmental framework independently of the politics of the time." (NPC, 2012:31). Such understanding was however not taken further by the NPC and the rest of the plan is very a-political. This is problematic because the NDP itself is supposedly based on a broader social compact and

bringing unions on board for a plan which unions believe is flawed will be difficult. Furthermore, although the NPC acknowledge the role played by unions before 1994, the NDP contains a veiled attack on unions:

South Africa has a well-developed and vibrant trade-union movement. Historically, trade unions have played a role in politics, understanding that the issues pertinent to its members do not stop at the factory gate. Unions advance the interests of their members and give voice to vulnerable workers, such as farm workers, domestic workers or casual workers.

[...]

To continue to make progress in raising incomes and living standards, productivity must also increase. South Africa's labour market is often characterized by contestation between profitable firms and *reasonably well-paid employees. Outcomes determined in bargaining processes leave little room for new entrants to enter the workplace* (NPC, 2012:58 *my emphasis*).

The above extract seems to suggest that the unions played an important role in the past but now their actions are impeding progress. It thus becomes contradictory to give unions credit because of what they did in past but later 'rubbish' the unions instead of coming up with an effective dialogue with unions as a crucial partner not only in history but in the future. This is arguably manifested through the tendency by the state and big business to only consider unions on trivial issues but when big policy issues come unions are side-lined – a culture of wanting to 'manage' labour. This tendency of marginalizing the unions may only serve to worsen antagonism between the stakeholders and prospects of a genuine dialogue are limited when unions feel they are being circumscribed. The attack seemed blunter on the South African Democratic Teachers Union (SADTU) even though the NPC did not mention SADTU specifically:

Teacher unions are crucial to improving the education system. Experience in other countries shows that without a good level of professional expertise among union leaders, it is difficult to get unions to move beyond the issue of salary increments to the core professional concern of improving the quality of education (NPC, 2012: 308).

The need for improvement of education is relevant for South Africa but from the above quotes, the NPC seems to present its argument in a way that signals that there is need to rein in trade unions. With the real and perceived challenges bedevilling unionism, it may not be sufficient to only tame the unions and a hostile attitude towards unions either from the state or from the business sector does not culminate in codetermination.

When government engages business and leaves unions outside, the government is aware of possible backlash from the unions who constantly see government –business relationship as an elitist conspiracy against workers (Plaut, 2012). Bringing the business community into the alliance which is also dysfunctional may prove difficult especially if business underestimate or is unaware of the tensions in the ANC led alliance. The NPC also seemed to shy away from the political factionalism which continues to entangle the policymaking process in in South Africa – president Zuma has been trying to deal with factionalism through cabinet reshuffles since 2009 (SAPA, 2013). This is problematic because the NPC as a result treat political factionalism in the ANC led alliance as non-existent and only continue arguing that ‘we must do this and do that’ without saying why this has not been the case so far. This partly explains why propositions for a broader social compact remain only good on paper but very difficult to implement.

## 5.6 Conclusion

The South African political economy terrain has remained uneven and full of contestations in terms of what has been done and what could have been done for post-apartheid era. If the two decades into democracy have been characterised by policy mistakes which led to only few being lifted from marginalization, the current phase, which the ANC has desired to call ‘the second phase of the transition’, provides another opportunity of prioritizing the interests of the majority. If fate is given more credentials for the future than real hard choices which should to be made by those in power now, the default current growth path will only continue to entrench itself and in future those in power now will retrospectively continue to argue that there was nothing they could have done – echoing the no alternative discourse. The NDP does not appear to be a fundamental departure from ‘business as usual’ especially in consideration of the primacy of fiscal prudence and the expectation that macroeconomic stability will generate sufficient private investment to underpin ‘inclusive’ growth. It does not represent the impetus towards the second phase of the transition. Trying to obtain different results by using the same old approaches (making only superficial changes such as improving bureaucratic professionalism in the system) will not change the current trajectory.

## CHAPTER 6 CONCLUSION

‘Breaking the mould’ into the wilderness of ‘lost alternatives’ is by no means easy especially when the nations have been accustomed to certain ways of doing things. This is particularly so when soundness of policies and state actions are always implicitly measured on the basis of ‘tried and tested’ procedures and best practices of the mainstream world. The globally hegemonic discourses often dictate what development policies nations adhere to and the globalisation thesis serves to crystallise this movement towards a unipolar world.

This study has set out to investigate, using the South African case and reflections on other country experiences, whether there has been real impetus towards non –neoclassical growth path more suitable for correcting the legacies of colonialism and apartheid. The logic of state intervention was established through the classic works of Keynes, Polanyi and Marx. The primary proposition in this ‘alternative tradition’ is that capitalism is inherently unstable. Thus the unrestrained laissez-faire economic system was refuted in favour of coordinated varieties of economic systems in which the state would play a critical role in economic development. The point of departure of this study is that the debate must not end at the first level of arguing against free market economic systems. Only expressing indignation against the status quo will certainly not help, but should be taken further into identifying the most suitable approach within the variants of alternative routes. The most suitable variant thus should take into considerations specific country context and the growing tendency towards knowledge intensive 21<sup>st</sup> century economy. The South African case thus provided a prism through which the ‘lost alternatives’ thesis was developed.

For the South African case, the main concern was how the policy choices made in the democratic South Africa were appropriate to tackle the obvious colonial legacies of poverty, inequality, landlessness and other forms of deprivations. A caveat should be acknowledged in that the focus on post-apartheid era may lead to premature judgments of policies adopted since the policymakers have had only about two decades to correct history that goes back to centuries of history. Nevertheless it is still crucial for such early alarms to be raised in order to avoid complacency and postponement of critical policy changes which will quicken the move towards a more equal society. In South African language, as demonstrated in the study, it is critical to curb the entrenchment of the dual economic system characterised by the ‘first’ and ‘second’ economy.

The study is based on the hypothesis that the post-apartheid South Africa had two major turning points or what have been termed the ‘windows of opportunity’ in which internal discursive processes emerged with more impetus towards a bigger role of the state in the economy. The first was the transition into democracy. In this period, the old system was dismantled and there was an opportunity to build a different system centred on democratic principles and to use the distributive role of the state to meaningfully improve the lives of the majority – not only in the ‘co-opt a few’ BEE policies adopted.

The second important turning point was the period from 2005 -2009 in which there was a growing disillusionment with Mbeki’s GEAR policy framework. This internal discursive formation had strong traction within the Alliance as evidenced by the victory of Zuma at the ANC’s elective Polokwane conference. External events such as the financial crisis in 2008 also served to strengthen this internal discursive process as there was a growing sense (internationally) of the need to embrace non-neoclassical alternatives. The question which the study was therefore answering is: Did the internal discursive processes lead to adoption of notable non-neoclassical growth and development policies – the best answer is no, as demonstrated throughout the study.

The transition period discussed in chapter 3 was marred with very critical objective conditions such as unemployment, huge government debt and the obvious inequalities of income and opportunities. The internal discursive processes during transition gravitated towards the Asian ‘developmental state’ (as depicted by the MERG and ISP report) because of its appeal for faster growth which South Africa needed. There was a social democratic ‘echo’, which stemmed from an element of the ANC’s historical legacy (i.e. Africans Claims) and the fact that the transition was negotiated and hence favoured dialogue. With the establishment of the National Economic Forum (NEF) which was developed later into NEDLAC, CODESA negotiations; South Africa’s socio-economic trajectory seemed to move towards social democratic traditions. It was this culture of tolerance, compromise and willingness to see the bigger picture which constituted this development. Even the RDP was seen as the binding ‘glue’ which incorporated deep democratic practices that included the civil societies.

Had South Africa proceeded on this trajectory of concerted policymaking, social dialogue/ compacts achieved at the NEF and early days of NEDLAC, the South Africa’s trajectory may have been different. In particular, had the *political* structure envisaged in the RDP (i.e. democracy necessitating



*far more* than elections) been institutionalized, the social and economic elements may have followed. The globally hegemonic discourses trumped the local discursive formation and the subtlety of their argument was based on the South African objective conditions such as high debt, need for macroeconomic stability and the need to be part of the global economy. This globally hegemonic discourse managed to convince, as it always does, the local policymakers into adopting the neoclassical economic policies. Knowing the potential contestation over the GEAR, the move was to push it down the ‘throats’ of South Africans as a ‘non-negotiable’ and it was done in abeyance of NEDLAC processes. This led to the understanding that the South African early development of social democracy was arrested – hence the period before GEAR became only a social democratic ‘moment’.

From 1996 onwards, as the study demonstrated, the economic policies and Mbeki’s political tendency towards authoritarianism meant that all pro-social democratic institutions such as NEDLAC would be neglected. This was accelerated further by the ‘brain drain’ from unions and civil organizations into government jobs – further hollowing out the South African democratic processes. The transition’s internal discursive formation lost the battle of asserting any non-neoclassical alternative route to economic development and growth. After this failure to secure a more redistributive trajectory, the reality of poverty and inequality was still present and the response had to be the liberal welfare regime of treating poverty at the surface using the social welfare programs such as child support grant and old age pension. This had one ‘effective’ outcome which is that of entrenching the post-apartheid ‘class abyss’ which the affirmative action policies have not unravelled so far (Finn and Leibbrandt, 2013). By middle income standards, the welfare transfers were exceptional but nonetheless not transformative and also did not entail that South Africa was moving towards the social democratic system. A very important effect (whether or not this was their intended *purpose*) of social grants has been the legitimization and political stabilization of the economic trajectory.

After the first decade of democracy, another discursive process began around 2005 and the need for an alternative growth path was gaining prominence. Retrospectively GEAR had not performed as expected and the misery among the marginalised was continuing – the blame game was also increasingly targeting the Mbeki regime. In relation to comparable countries (BRIC countries), South Africa economy was growing on a slower pace. Brazil’s poverty and inequality reduction in

particular was a case drawn by many critics of the Mbeki regime (Gumede, 2013). The developmental state experienced a revival and this time with more rhetorical vigour than during the transition period in which emphasis was directed towards establishing a political democracy. However the DS did not constitute a real shift towards non-neoclassical approach to economic growth. Another window of opportunity for the internal discursive processes to break away from the status quo was lost. This time unlike the transition period in which globally hegemonic forces had a greater role, the failure was more based on the incoherence of policy development and the failure to establish a social compact/ dialogue. The policy incoherence reflected vested interests in the landed elites and the availability of hard-to-reconcile differences between the state, labour and businesses/employers.

None of the post-GEAR policy frameworks (ASGISA, NGP, and NDP) has transcended this incoherence and none has the characteristics of either DS or SD. The NGP expressly argued that the DS was being built but this was merely tucked in to the framework without rigorous formulations of how the DS would be constructed. This was particularly so at the macroeconomic level. Policy inconsistencies were starker with the NDP's earlier version which had nothing on the DS despite the concept having been followed by the ruling party since 2007. With the final version, the DS was just inserted into the document again without any serious alterations of the early draft to incorporate the DS oriented policies such as the greater role of government intervention.

This study has demonstrated that the DS has not been developed beyond rhetoric and being a mere buzzword inserted into policy frameworks and public speeches. Being a buzzword, the public was left to give the DS various meanings because of its amorphous nature. This study thus went further to challenge why the DS would be the appropriate for South Africa and not the neglected social democracy (SD) whose logic resonates well with the South African context. The context in which the 20<sup>th</sup> century Asian DS was established was different from the current era so why South Africa should assert the 20<sup>th</sup> century development virtues was questioned. Furthermore, the 20<sup>th</sup> century DS was developed in authoritarian regimes with state apparatuses not only unavailable but not desirable for the South African context. The allegiance towards the DS in South Africa was more inclined to the 'state dominance school'. Saying the South African DS would be democratic did not help either because once democracy is put into the equation, the DS would not be possible unless if only a 'thin' electoral democracy is envisioned. It is not appropriate to think the 20<sup>th</sup> century typical DS model

can be adopted without the attendant authoritarianism because it is the authoritarianism which provided the political dynamics which made the pursuit of DS possible there in the first place.

The move towards the social democratic system is based on the above refutation of the amorphous DS developed in South Africa. The social democracy is more appropriate despite faring badly ideologically compared to DS's 'developmentalism' ideology. The DS's 'developmentalism' in South Africa gained traction as more scorn was 'poured', unjustifiably, on the welfare state. Yet in fact it is the welfare state, as observed in Sweden, which should be at the centre of the economy organizing not only welfare payments (as portrayed in the mainstream) but executing the active labour market policies (activation programs, coordinating with employers for training) and extending social services. Once the welfare state is expanded to these important roles, the absurdity of the ANC (2007) phrase 'welfare state creates dependency' becomes more obvious.

The extension of the debate to social democracy is also in line with recent developments in economic theory namely the new growth theory, institutional approach and the capability approach. These theories converge towards the primacy of capability enhancing as an essential tool of 21<sup>st</sup> century knowledge and service intensive economies. Thus the social democratic system proposed is more in line, with its focus on people, with the current trends than the DS's logic of 20<sup>th</sup> century mass production industrialization which required traditional forms of skills. The social democratic system as shown for the Swedish case does not concern itself only with income poverty but with complementary social service such as day care which frees women to take up employment in the labour market.

The social democratic system is even more relevant for the consolidation of democratic institution and trust building between stakeholders such as the state, employers and unions. South Africa's increasing call for social compacts/dialogue/cohesion is much more tenable, as seen during the South African social democratic 'moment', in a social democratic system. The NDP's envisioned social compact is difficult to attain in the current system in which no trust prevails not only between unions and employers but including the state as well. Furthermore, the NDP itself does nothing to build trust, as it contains a thinly veiled 'anti-union' message. At best the South Africa show serious lack of determination going towards adopting 'lost alternatives' and the latest framework, the NDP, proposes merely superficial changes in the status quo. Such change will not deal with structural unemployment, post-apartheid 'class abyss' and structural poverty.

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