The myth of "neutrality" and the rhetoric of "stability": macroeconomic policy in democratic South Africa

Isaacs, Gilad

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Gilad Isaacs

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Abstract

This paper offers a comprehensive review of macroeconomic policy in democratic South Africa. It does so with two distinctive features. First, macroeconomic policy is analysed on four interlocking, and sometimes conflicting, levels: [1] policy as provided "on paper" in government plans and programmes; [2] the scholarship upon which policy is (purportedly) premised; [3] the rhetoric/ideology that surrounds policy and sometimes obscures its true nature and even intentions; and [4] policy as actually implemented in practice. Second, the manner in which macroeconomic policy has facilitated the restructuring of the South African economy is carefully examined. This runs contrary to the orthodox assertion that macroeconomic policy only plays a "neutral" and/or "stabilising" role. It is shown that the restructuring that has occurred has not reoriented the economy away from its traditional reliance on minerals and energy, mineral-related sectors and finance; rather it has consolidated this structure and corresponding dynamics, albeit with novel features. Macroeconomic policy has, thus, played a leading role in facilitating particular forms of restructuring that, rather than reorienting the economy towards the needs of the impoverished majority, have reinforced the pre-existing dominant sections of capital while incorporating a newly emerging black bourgeoisie.

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INTRODUCTION

The architects of South African economic policy and their defenders are fond of two refrains. The first is that the South African economy is in the process of being decisively transformed in a manner congruent with the needs of the poor majority, and the second is that macroeconomic policy has played, and continues to play, only a "supporting", if vital, "stabilising" role. In a systematic review of macroeconomic policy over the last two decades this paper illustrates that both these mantras are fallacious. Significant restructuring of the economy has occurred, most notably liberalisation, deconglomeration, Black Economic Empowerment and internationalisation and financialisation, transformations each of which macroeconomic policy has facilitated. However, despite these significant changes in the patterns of ownership and certain victories for labour in the spheres of industrial relations legislation and social policy, the underlying dynamic of the economy, that privileges large capital, in particular mining, mining-related industries and finance, remains firmly entrenched.

This paper's systematic review of South African post-apartheid macroeconomic policymaking explores a number of overlapping facets. It interrogates what those policies were, what motivated their implementation, how they were justified, what their consequences were and whether they achieved their own objectives. It also unpicks how these policies contributed to the restructuring of the economy.

It is useful to be able to distinguish policymaking on four interlocking levels. Most tangibly we are confronted by the policy documents presented by governments or ruling parties. Next, these are underpinned by particular scholarly or ideological paradigms, or often, as is the case in South Africa, a confused amalgam of what are often inconsistent approaches. Third, the true intent, or unintended consequences, of the policies is frequently shrouded in rhetoric, often adjusted for each audience, in the attempt to render them desirable, palatable or even unquestionable commonsense. Finally, the policies in practice often (but not always) differ markedly from those on paper, the underlying scholarship, and the rhetoric. The relationships between [1] policy on paper, [2] scholarship, [3] rhetoric/ideology, and [4] policy in practice are not necessarily stable or consistent and can shift with context and across place, topic and over time.[1] At various points in this paper these different facets are distinguished from one another.

Post-apartheid South African macroeconomic policy, with roots in the policies of the outgoing apartheid regime, can roughly be divided into three phases. The

[1] This schema is adapted from that of Ben Fine, as originally advanced in Fine (2001). By way of example, when considering neo-liberalism Fine argues that, 'at the grand level, neo-liberalism as rhetoric has been about leaving things to the market; in scholarship it has ranged from neo-classical monetarism to the mutually inconsistent neo-Austrianism; and, in practice, it has always been about heavy state intervention to promote private capital in general and finance in particular' (Fine 2008, p. 10).

first, roughly from 1994 to 2000, was one of structural adjustment: rapid liberalisation, fiscal austerity, conservative monetary policy, and minimal state intervention in shaping industrial development. The second, roughly from 2001 to 2007/9 involved various flirtations with reform – a focus on microeconomic blockages and the revival of industrial policy and state intervention. In the third, roughly the last five years, a new "conservative consensus" emerged between important policy makers (particularly National Treasury), international agencies (such as the OECD), and orthodox academics. This emphasises fiscal austerity (albeit with a new emphasis on large-scale capital-supporting infrastructural investment), monetary conservativism (albeit with more concern for the exchange rate), continued emphasis on open financial markets, and a determined push for labour market flexibility.

Despite the ability to periodise these phases, there are important continuities across them, both in the policy in practice and the underpinning scholarship/ideology, although the latter is often eclectic and ad hoc and commonly serves to legitimise policies already chosen rather than shape policy consistently. It has also been common practice for the ANC to shroud its conservative policies in radical rhetoric. However, the policy in practice is consistently at sharp odds with the rhetoric of the ANC and the radical redistributive and/or transformative agenda that it professes to be undertaking.

This paper is divided into ten sections. The paper begins, in section one, by providing an account of the prevailing circumstance that the new ANC Government encountered, both in terms of the structure and health of the South African economy, as well as the prevailing (global) scholarly and ideological framework which shaped economic policy at the time. Section two describes the restructuring that has occurred in post-apartheid South Africa. The first phase of policy is analysed in sections three and four, which deal with the Growth, Employment and Redistribution (GEAR) programme, and the Reconstruction and Development Programme (RDP), respectively. The fifth section tackles monetary policy in both the first and second phase. The analysis of policy is paused in section six as the performance of the economy in the 2000s (given the previously described policies) is interrogated. Section seven turns to phase two and the new focus on microeconomic reforms, which is complemented by section eight looking at purported progressive shifts during this period. The penultimate section, section nine, tackles the "current conservative consensus" including the recently adopted National Development Plan (NDP). Section ten concludes by highlighting how the deficiencies of the preceding policies are premised on the shortcomings of orthodox economic thinking, in particular the paucity or superficiality of any structural analysis.

1 PREVAILING CIRCUMSTANCES

The context within which the African National Congress (ANC) approached economic policymaking, both in the dying days of apartheid and during the new democratic dispensation, must be correctly apprehended. Of particular importance are the structure and condition of the South African economy, changes taking place in the global economy and the prevailing economic wisdom, all three relating to the local and global balance of forces, in which capital was overwhelmingly predominant. These are briefly sketched here.

1.1 The Structure and Health of the South African Economy

At the heart of South Africa's economic development has been the country's mineral wealth. Following this, Fine and Rustomjee (1996) have posited the existence of a Minerals-Energy Complex (MEC) made up of 'core' sectors relating directly to minerals and energy, and other manufacturing sectors – upstream, downstream, and horizontally related – largely reliant on, or intertwined with, the core sectors (these range from explosives to steel processing, from petrochemicals to machinery, and so on).[2] The MEC, however, is more than a set of sectors, it refers to 'an evolving *system of accumulation* specific to South Africa'.[3] This means the MEC reaches beyond the productive processes of core MEC sectors and into adjoining supply chains, labour markets, public infrastructure, and financial services, as well as conditioning the relationship between private capital and the state and the formation and implementation of macroeconomic policy; thus powerfully shaping the economy at large (Fine and Rustomjee 1996, Fine 2009a).[4]

The other most distinctive feature of South African economic development has been the racially discriminatory and unconscionable policies associated with colonial rule and apartheid. Most important were measures to enforce social segregation and restrict movement, the denial of access to landownership for black persons, and the colour bar preventing the appointment of blacks to skilled or senior jobs. These measures were to varying degrees driven by the interests

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[2] Despite national statistical labels, these "manufacturing" sectors are better thought of as part of the MEC.

[3] The various dimensions to which the "MEC" refers can give rise to confusion. Here "core MEC sectors" or just "MEC sectors" refers to those sectors that comprise minerals, energy, and other sectors deeply entwined (as above) (see Fine and Rustomjee 1996, chap. 4), "*MEC manufacturing sectors*" refers to the sectors within the core MEC sectors usually classified as manufacturing, "MEC related activities/production" can refer to activities in other sectors taking place due to a connection with the core MEC sectors, and "the MEC" refers to the system of accumulation itself.

[4] The MEC is developed in Fine and Rustomjee (1996) and contextualised in Fine (2009a). It is also discussed in Roberts (2000), Takala (2000), Mohamed and Finnoff (2004), Padayachee (2009), and Roberts and Rustomjee (2009) amongst others. For a critique see: Bell and Farrell (1997) and Bell (1998), and a response: Fine and Rustomjee (1998). For an exposition on how the MEC thesis fits in South African historiography see Freund (2009).

of white capital and labour (English and Afrikaner at different points) and Afrikaner agriculture.

At times the pathological commitment to racial segregation and oppression by state ideologues, sometimes exercising a relative autonomy, conflicted with the interests of dominant sections of capital. However, understanding the MEC as *a system of accumulation* means that capitalist development was regulated by this configuration of, albeit contested, capitalist interests and the associated technological development of those industries, which at various points was challenged by white labour and black resistance. This set the trajectory of economic development in South Africa – not least via exercising enormous influence over state policy – whilst racial nationalist policies have managed to influence its course.

The institutional form taken by the MEC was, by the end of apartheid, six massive conglomerates most comprising of intricately intertwined mining, industrial and financial arms. The conglomerate ownership structure for 1988 and the relative market capitalisation of the six major conglomerates are given in Tables 1 and 2, respectively.

The largest of these was the bastion of monopoly "English capital",[5] Anglo American Corporation (AAC), centred on gold and diamond mining, and it was English capital that unequivocally dominated the industrialising South African economy from the late 1880s until World War II. The consolidation of the conglomerate structure took place during the 1950s, 1960s and 1970s with the expansion of mining, the extension of the boundaries of the MEC hand-in-hand with the creation of new state-owned enterprises (SOEs) (directly within core MEC sectors such as Sasol in petrochemicals or providing necessary support services such as in transportation), and the funding of non-mining MEC sectors via the state controlled IDC.

We see in the tables that during the 1960s and 1970s large Afrikaner capital, originally buoyed by apartheid state support and having subordinated smaller Afrikaner capital, was incorporated into the MEC. This was the first occasion in which the aspirations of a nascent section of capital outside of the MEC have been advanced via direct political engineering. However, this did not lead to a shift in the centre of economic power away from the MEC. Rather, existing MEC capital was able, in stages, to accommodate, co-opt and eventually incorporate those aspirations, leading to an internalising of the largest and most dynamic and dominant elements of Afrikaner capital within the MEC.

Finance was integrated within, and integral to, the MEC. Financial institutions (particularly SA Mutual and Sanlam) owned mining and industrial concerns, and mining and industrial capital (AAC and Rembrandt) owned financial institutions. Further, the oligopolistic financial sector was substantially orientated towards facilitating the expansion of existing sectors, acquisitions by the conglomerates,

[5] "English capital" refers to white capitalists of English extraction, with financial links to England, or English investment abroad. It is largely established in opposition to "Afrikaner capital" referring to white domestic capital from the Afrikaans speaking community.

and transfers of ownership within and between the conglomerates (Fine and Rustomjee 1996, p. 103). The burgeoning of Afrikaner finance was instrumental to Afrikaner capital's growth and penetration into the MEC. The financial sector's activities were also heavily skewed towards short-term lending and money market activity thus encouraging speculative investment. It was not, therefore, calibrated towards financing the establishment of new industries (Fine and Rustomjee 1996, pp. 176–177). The centrality of finance means that the MEC could better be considered the MEFC – the Minerals-Energy-Finance Complex. This laid the foundation for the financialisation of the South African economy that has taken place over the last two decades (discussed in section two).

The South African economy grew and diversified over the course of the twentieth century. Manufacturing saw strong growth and increased the share it contributed to investment (gross fixed capital formation) and gross value added, these peaking in 1980 and 1981, respectively. Increasing industrialisation, precipitating an unstoppable tide of black African urbanisation and worker militancy undermined the foundations of apartheid. However, the repression of black capitalists and subjugation of black workers sharply skewed the allocation of resources, social services and access to education and training and skilled work. Despite industrialisation and diversification the centre of gravity of the economy failed to move away from its reliance on MEC sectors.

International isolation, foreign disinvestment, and gains in the gold price in the late 1970s and 1980s meant substantial surplus funds washing around the South African economy. This did not lead to substantial real investment in new industries; investment had peaked at just shy of 30 percent of GDP in 1976 and remained strong until 1983 after which it began a steady decline. Rather it precipitated a spate of acquisitions by MEC conglomerates of industrial and manufacturing enterprises, further concentrating ownership. With apartheid beginning its terminal demise the economy entered protracted decline and crisis.

The consequences of these shifts are clear. Over the decade from1983 to 1993 domestic investment declined from 27 to 15 percent of GDP and domestic savings fell from an average of 23.5 percent of GDP in the 1980s to 17 percent in 1993 (Michie and Padayachee 1998, p. 1174) (see Figure 2). The GDP growth rate plummeted to an average of 1.4 percent between 1980 and 1993 down from 4.5 percent in the preceding two decades (see Figure 1). With steep population growth, the average GDP per capita growth rate over the same period was negative at -0.9 percent, and between the ends of 1989 and the end 1992, the economy suffered its most protracted recession with negative growth rates for eleven out of thirteen quarters (see Figure 1). The slowing of capital investment in new and existing industries together with demographic changes meant that labour absorption into the formal sector plummeted from the mid-1970s, and unemployment rose. This was coupled with weak levels of aggregate demand and, outside many MEC core sectors and white employment, exacerbated by a reliance upon low investment, low skill, low wage and/or low productivity black employment, itself corresponding to the racist and wilfully neglectful education system that had ill-equipped the vast majority for anything else.

Much has been made of the acute short-term macroeconomic fragilities and challenges – such as a sizeable debt burden and high levels of inflation – that the first democratic government inherited. These will be taken up in section 3.2 which illustrates how their importance was amplified for ideological ends. What is emphasised here is that despite significant strengths – a well-developed infrastructural and capital stock (albeit in need of attention), private sector financial surpluses, a sophisticated financial sector, and significant business and technological expertise (of course racially skewed) (Michie and Padayachee 1998, p. 1174) – the economy suffered from deep structural deficiencies.

These included a high degree of concentration and a lack of competition, with large inefficient monopolies and huge conglomerates. The financial sector – internalised within the conglomerates – had a high cost and oligopolistic structure and was not orientated towards facilitating access to funds for diversification away from the conglomerates. The state bolstered the MEC sectors and facilitated the incorporation of Afrikaner capital within its expanding boundaries. This, together with international conditions, maintained the dominance of the MEC sectors but at the expensive of sustainable growth of a vibrant manufacturing sector. Further, the economy in general lacked capacity in intermediate and capital goods and integration across different sectors (Fine 1995a, pp. 18–19, Naidoo 2006, p. 110).

The absurdity of apartheid segregation policies left a legacy of spatially distorted residential and industrial patterns on both local and national levels. Public spending was skewed towards supporting the mineral and energy sectors and armaments, social service provision (water, housing, electricity, welfare etc.) to the poor black majority was abysmal, and, needless to say, ownership and economic opportunities favoured whites. In general, '[t]he national budget, state machinery and industrial sector were thus geared not towards growth and meeting the developmental challenges that confronted the new government, but rather towards sustaining the Apartheid system' (Faulkner and Leowald 2008, p. 10). We turn now to the intellectual and ideological context framing the transition from apartheid and shaping the policies of the new government.

1.2 Neoliberalism, the New Macroeconomic Consensus, the Washington Consensus

The intellectual and ideological milieu the ANC encountered in the late 1980s and 1990s was deeply conservative, with neoliberalism – the dominant political and economic ideology – entering its second phase (see below).

Neoliberalism is a relatively expansive notion both theoretically and in the range of activities it describes; 'a complex and shifting amalgam of scholarship, ideology and policy in practice' which are not always mutually consistent and are attached to diverse material conditions (Fine 2010a, p. 9). This said, the deep penetration of markets into all facets of social life, or put the other way, the subsumption of social life under market imperatives, is central. This requires an 'institutional framework characterized by strong private property rights, free markets, and free trade' and a state prepared to guarantee these (Harvey 2005, p. 2). More concretely neoliberalism is usually argued to consist of: deregulation of product, finance and labour markets; privatisation; renunciation of discretionary fiscal policy; conservative monetary policy; reductions in state social spending; reduction in taxes on business and the wealthy; an attack on trade unions, and the casualisation of labour; intensified competition; and stricter application of market norms inside large corporations (Kotz 2009, p. 307).

During the first phase of neoliberalism (the late 1970s, 1980s, and early 1990s) the above were imposed in order to liberate "market forces" without concern for the consequences, aptly captured in the notion of "shock therapy". The second phase (early 1990s to the present) saw a tempering of the worst consequences, and a more gradualist approach, although the fundamental interventions persisted. In both phases the rhetoric of free markets and state withdrawal masked that the state intervened on a grand scale to promote the interests of capital, and finance capital in particular (Fine 2009b, 2009c, 2010a).

"Financialisation" forms a core facet of the neoliberal period, with both proceeding on the basis of globalisation. Financialisation is understood here to refer to a restructuring of capitalist accumulation, which has at its heart the domination of financial markets over more and more spheres of economic (and social) life, but which inevitably proceeded on the basis of the internationalisation of capitalist production which gathered steam after World War II.[6] Financial globalisation help facilitate the internationalisation and restructuring of global production by offering an array of financial services demanded by multinational corporations and was functional to the recovery of profitability following the crises of the 1970s. However, financialisation has to some degree subsequently diverted funds away from (longer-term) productive investment – and into short-term financial market speculation – and thus undermined the investment in production upon which the accrual of financial surpluses ultimately rests.

Financialisation has entailed transformations in the operations of both financial and industrial capitals, the relationship between them, and their relationships to financial markets. First, a "market for corporate control" has emerged, in which nonfinancial corporations (NFCs) have come to be seen as bundles of assets to be bought, sold and traded, not least by NFCs themselves. They constitute part of the investment "portfolios" of massive institutional investors and investment funds, whose financial worth must be maximised at any given time. Second, NFCs have come to rely less on banks for raising funds as they make use of retained earnings and raise funds directly in capital markets. They have also engaged in financial market trading of their own. Third, this has altered the nature and priorities of commercial banks who have also engaged in financial market trading and come to rely on fees, commissions and other non-interest sources of business.

[6] The author's conceptualisation of financialisation is explained in an unpublished paper available upon request.

Financialisation has also entailed the greater entanglement of governments and households in financial markets. Both financial assets and liabilities of households have mushroomed in the form of pension and investment funds, and mortgage, credit card and other debt. This has been of critical importance to the economy at large and households have become more directly subject to the vagaries of financial markets. The expansion of governments' balance sheets have also been notable as has their active intervention on behalf of financial markets, as so vividly demonstrated during and since the crisis of 2008.

Neoliberalism triumphed hand in hand with particular approaches to economic policy making. The New Macroeconomic Consensus (NMC) came to dominate macroeconomic policy making, emerging in the late 1980s as an uneasy compromise position between the new-classicals and new-keynesians. Leaving aside some of the more technical facets,[7] it rests on a number of fundamentally flawed propositions.

First, it posits the need for "micro-foundations" to inform macroeconomic analysis and policy. This means that the economy is understood to be determined by the utility and profit maximising behaviour of individual agents (firms, consumers or workers) based on rational expectations. The consequences of this are manifold but most crucially it precludes both structural analyses – understanding how class, race, institutions, historical trajectories, existing power relationships etc. shape economic life – and systemic failures of the economy. An artificial dichotomy has also been created between the micro and macro, with the two being cast as somewhat independent.

Second, the failings that are acknowledged are only those of "market imperfections". This implies that market failings are a correctable divergence from otherwise perfect markets, a view sharply at odds with various heterodox critiques of the inherent systemic instability of capitalist markets.

This overlaps with a third critical plank, general equilibrium analysis, which rests on a second false dichotomy between the short and long runs, with the economy posited as tending towards equilibrium in the long run. The consequence is a reduction of the role of macroeconomic policy to one of simply

[7] The New Consensus Macroeconomics (NCM) model emerged to become 'a workhorse for policy and welfare analysis', it is captured in three key equations; briefly put, these are: 'An aggregate demand relation, in which output is determined by demand, and demand depends in turn on anticipations of both future output and future real interest rates. A Phillips-curve like relation, in which inflation depends on both output and anticipations of future inflation. And a monetary policy relation, which embodies the proposition that monetary policy can be used to affect the current real interest rate [the "Taylor rule"].' (Blanchard 2008, p. 8, see also: Fontana 2009, pp. 6–11, Goodhart 2009, pp. 12–13). This model is, to put it mildly, problematic. The first two equations are patently false, the model ignores the financial system (and is only tractable in the absence of bankruptcy, risk premia, banks, credit constraints), fiscal policy is absent, and unemployment (except of a voluntary nature) and credit and financial market instability cannot be accounted for (Blanchard 2008, pp. 12–17, Goodhart 2009, pp. 13–14). This remarkable reduction in the understanding of the macro economy was only, and necessarily, revealed to those steeped in the conventional wisdoms of the NCM as such by the recent economic crisis and then only minimally.

stabilising the economy in the short run and establishing the fallacious "neutrality" of macroeconomic policy. This further obscures the role that macroeconomic policy plays in determining the trajectory and restructuring of the economy, and vice versa.

Fourth, the role of macroeconomic policy is further limited because only monetary policy is seen as being an effective intervention – with the short-run interest rate as the key policy lever – while fiscal policy is either ignored or any benefit understood eventually to cancel itself out. Fiscal austerity is prized also on the basis that expansionary spending "crowds out" private sector investment and that national savings are necessary for investment. This last point speaks to the debate over whether savings lead to investment, or investment to savings. This is another illogical dichotomy as savings here are used to refer to national savings, thus somewhat arbitrarily distinguishing between the national and global economies. Even so, "savings", that is accumulated capital, is necessary for investment, but whether this comes from national or international sources is the consequence of a complicated set of conditions and policies, and there can be no necessary straightforward relationship between national savings and local investment, nor any reason to assume that savings leads to investment and not vice versa.

Fifth, a third dichotomy is drawn between the "financial" and the "real", with the financial sector being completely ignored within this paradigm (the NCM model is tractable only in the absence of bankruptcy, risk premia, banks, and credit constraints). This has led to divorcing monetary policy from financial policy and neglecting the consequences that the former might have for the financial sector. This is particularly negligent of the role of finance, and financialisation, in the context of the other postures informing macroeconomic framing and policymaking.

In a separate branch of financial economic analysis the 'efficient market hypothesis' came to dominate. This asserts that asset prices aggregate and fully reflect all relevant information. The implication is that 'there cannot be an *endogenous* gap between market prices and fundamentals' (Palma 2009, p. 830), assets are always priced right, so that in the absence of market imperfections or distortions markets behave in an efficient and pareto optimal manner (Beiter 2009, Krugman 2009). This, by definition, precludes the possibility of a bubble and associated crises bar external distortions.

Finally, there is a fundamental feature of macroeconomic policymaking bridging the Keynesian revolution, the monetarist counter-revolution, and the current new macroeconomic consensus. Macroeconomics has essentially understood outcomes in terms of the extent to which increases in aggregate effective demand translate into increases in prices or increases in output depending on an inclination towards monetarist or Keynesian outlooks, respectively. For reasons already covered, in the NCM this even takes the extreme form of relatively limited room for manoeuvre both quantitatively, that is allowing little scope for policy to increase demand and output, and qualitatively, in the sense of the mechanisms through which effective demand is transmitted. The consequence is not simply an undue reliance upon monetary policy (itself reduced to interest rate policy to raise or reduce demand in light of inflation, inflationary expectations and presumed trade-offs with potential increases in output) but a wilful neglect of the dynamics of the financial system, and hence excluding the powerful role of financialisation in the contemporary functioning of the economy. This thread is raised again with reference to monetary policy in section five.

More prosaically, the key policy tenants associated with the New Consensus period can be summarized as follows:

1. Price stability at relatively low inflation rates is the goal.
2. The primary tool is the short-run interest rate.
3. Fiscal policy intervention is seen as an unsuitable instrument for macroeconomic demand management.
4. Likewise, financial regulation is argued to be unnecessary, ineffective or harmful.
5. It is presumed that expectations are critical, leading to an emphasis on communication and transparency.
6. Independent central banks free of political and short-term concerns are argued to be essential.
7. Markets are regarded as efficient, and self-correcting. Asset markets are perceived as effective at pricing and distributing risk and financial innovation as welfare-enhancing.
8. "Bubbles" could not exist, or could not be detected. When the "exuberance" of investors leads to distortions, the best monetary policy can do was to mop up the mess afterwards.
9. Systemic financial crises existed only in history books and emerging markets.

(See Bean *et al.* 2010, Blanchard *et al.* 2010, IEO 2011, Stiglitz 2011)

The two decades in which the NCM held sway (late 1980s to 2007) was also, unsurprisingly, the period in which the Washington Consensus (and then Post-Washington Consensus) monopolised thinking over the appropriate policies via which developing countries could "advance".

The tenets of the Washington Consensus (Williamson 1989) supplement the above and can be summarised as insisting upon (Wikipedia 2013):

1. Fiscal policy discipline, with avoidance of large fiscal deficits relative to GDP;
2. Redirection of public spending from subsidies ("especially indiscriminate subsidies") toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment;
3. Tax reform, broadening the tax base and adopting moderate marginal tax rates;

4. Interest rates that are market determined and positive (but moderate) in real terms;
5. Competitive exchange rates;
6. Trade liberalization: liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs;
7. Liberalization of inward foreign direct investment;
8. Privatization of state enterprises;
9. Deregulation: abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions;
10. Legal security for property rights.

The "post-Washington Consensus" was a belated recognition of market failings, but one in line with the "market imperfections" approach mentioned above. The post-Washington Consensus therefore came to emphasise an *orderly management* of Washington Consensus dictates, such as market liberalisation (see: Fine *et al.* 2003, Stiglitz 2005, Fine and Jomo 2006). These stages conform with Fine's (2009b, 2009c, 2010a) distinction between two phases of neoliberalism (discussed above). The Washington Consensus (and its latter reincarnation), as an instrument of neoliberalism, sought to subjugate all facets of social and economic life to the market, in this case under a "developmental" guise.

Post-apartheid macroeconomic policy, as will become clear, has conformed to many (but not all) of the tenets described above (globally, policy – on paper and in practice – has not been consistent over time, and in its scholarly underpinnings). The short and long run have been starkly distinguished and "stabilising" the former given priority; structural analysis is absent; presumptions of equilibrium and market efficiency abound; fiscal policy has been neutered and conservative; and "independent" tight monetary policy, narrowly conceived, has been prized and divorced from considerations relating to the financial sector, whose specific dynamics have been ignored. In broad terms "macroeconomic stability" and growth have been emphasised, if not promoted, with greater redistribution and equity argued to follow as a consequence. All of this has given rise to, facilitated even, particular restructurings of the economy in democratic South Africa. It is to these we now turn. Whilst, these are no doubt the outcome of policy choices it is useful to lay them out in broad brushstrokes before interrogating the policy choices made and how these contributed to restructuring.

2 POST-APARTHEID RESTRUCTURING

The South African economy has undergone significant restructuring over the past two decades across a number of interlocking levels. This said, the underlying dynamic of the economy, and its gravitation around mining, mining-related sectors, and finance, has not been displaced. In short, the MEC not only survives but thrives, albeit with novel features. The key restructurings include liberalisation, the unbundling of the conglomerates and their "rebundling" into sectoral monopolies, Black Economic Empowerment (BEE), and internationalisation and financialisation. All these have interacted with one another and are contributing factors to the enduring role of the primary sector, the rise of the tertiary sector, and the lousy performance of non-MEC manufacturing sectors. Macroeconomic policy, far from being neutral around a given path, has facilitated all these facets and outcomes of restructuring, whilst presenting itself as above or independent of them.

A marked change to the South African economic landscape has occurred as a result of the unbundling and rebundling of the major conglomerates. Table 1 shows how the proportion of JSE market capitalisation in the hands of the conglomerates fell dramatically from 85.9 percent at the end of apartheid to 38.5 percent in 2004. The unbundling meant a sharper focus on 'core competencies' and a movement away from unrelated diversification, a reflection of developments already long underway earlier in the global economy as a result of financialisation (see below). The subsequent "rebundling" – facilitated via a slew of mergers and acquisitions – has entailed the consolidation of core mining related business domestically and expansion internationally, as well the (re)entry of multinational corporations (MNCs) into South African economy, with significant focus on vertical integration along value chains (see Chabane *et al.* 2006 for an excellent, if dated, exposition of this restructuring).

These restructurings have not displaced core MEC sectors from their position at the heart of the economy. In 2012, of the JSE Top 40, only 13 companies did not have roots in the major conglomerates or apartheid era public enterprises. Basic resources and oil and gas still account for 38% of the Top 40 market capitalisation, and financial services another 18%, and there is only one "new" entity in each of these sectors (Isaacs 2012, p. 20). The picture is less extreme when broadened to the Top 100 firms where, in general, expansion has occurred in retail, construction, telecommunications, services and healthcare, but diversification and growth within manufacturing remains an Achilles heel (Competition Commission 2008).

Privatisation, internationalisation, capital flight (including offshore listings) and financialisation have all gone hand-in-hand with conglomerate restructuring. The dying days of apartheid saw the privatisation of a number of SOEs, most notably Sasol and Iscor, whose management priorities shifted from sustaining apartheid policies to maximising share prices in the context of global integration.

Since then privatisation has been highly contested and relatively limited with telecommunication and aviation being the main sectors affected.

The conglomerates were the driving force behind financial liberalisation, including the lifting of exchange controls and the sanctioning of the offshore listing of the newly unbundled South African corporations (these were often dual listings with corporations listed on the JSE and a foreign stock exchange, particularly the LSX). The argument advanced was that this would allow corporations to raise capital cheaply on international markets and encourage inward FDI, thus raising levels of investment in South Africa. However, levels of FDI have remained poor and firms listing abroad have not recorded higher levels of investment in South Africa (Chabane *et al.* 2006, p. 558). This has been accompanied by massive illegal capital flight that was a feature of the latter years of apartheid, estimated at 5.3 percent of GDP between 1980 and 1993, and has continued, in fact increased, in democratic South Africa, reaching an estimated 23 percent of GDP in 2007 (discussed further in sections six and 9.1) (see Mohamed and Finnoff 2004, Boyce and Ndikumana 2008, Mohamed 2008, Ashman *et al.* 2011a, and see Strauss 2012 for a critique of the methodology employed). This has been a critical factor in the low levels of investment in post-apartheid South Africa.

International diversification has meant integration within global financial networks and an already "financialised" global economy, a key contributing factor to the financialisation of the South African economy. This is a critical transformation which mainstream economists and policy makers have consistently overlooked. As will be seen, the liberalisation and expansion of the financial sector, and the role of finance in the economy as a whole, have been actively pursued. The financialisation of South African corporations (financial and nonfinancial) has proceeded very much along the lines described above: financial markets have burgeoned (leaping in the last decade from around 147 percent of GDP in 2001 to 338 percent in 2009) and derivative markets been established; the market share of investment funds, hedge funds, pension funds, and private equity has grown significantly; the financial investments and share of profits accruing from financial market mediation of NFCs has grown enormously; financial volatility and capital flows have increased enormously; households have become more integrated into financial markets; and government policy has supported the subjugation of more and more facets of social, political and economic life to financial markets (for further evidence of this see Mohamed 2003, 2008, Ashman *et al.* 2011a, 2011b, Isaacs 2012). This critical transformation has proceeded on the basis of financial market liberalisation, an active policy intervention.

Financialisation plays out differently in the capitalist core compared to emerging markets, and is differentiated between countries. This diversity not withstanding, South Africa exhibits trends similar to a number of other financialised emerging markets. These include a reliance on short-term capital inflows, currency volatility, low levels of investment in the real economy, a burgeoning financial market, and enormous capital flight.

This has been driven by "external" or international pressures – the impact of capital account liberalisation, capital flows, floating exchange rates, foreign bank entry, the non-international status of domestic currencies, and the operations of foreign investors and multinational corporations – and "internal" pressures both specific to the political economy of each country and more general – privatisation, and the internationalisation of domestic corporations. As will become clear domestic macroeconomic policy has played a key role in many of these respects.

The above provides the context through which to understand how ANC governments chose to address the historic inequalities in the South African economy. Increasing the share of elite black ownership in the dominant sectors of capital rapidly became a cardinal objective of Black Economic Empowerment (BEE). In the first phase of BEE (roughly the second half of the 1990s and beginning of the 2000s) financial institutions provided the funding for black entrepreneurs to acquire stakes in existing firms via complex financial engineering. The scheme was initially successful with over half of black ownership on the JSE achieved in this manner. However, what was established were highly indebted conglomerate-like holding companies or investment funds, rather than new enterprises. With the local and global market volatility of 1996–1998 many of these collapsed, and the black ownership share of JSE market capitalisation fell from 9.6% in 1998 to just 4.3% in 1999 (Chabane *et al.* 2006). The second phase, dubbed Broad-Based Black Economic Empowerment (B-BBEE), has sought to use a range of normative measures to promote black business, including leveraging government procurement, sector specific charters, and demarcating eligibility based on a scorecard of B-BBEE compliance. BEE deals during the second phase have been concluded through a private equity model and via mergers and acquisitions, unsurprisingly reflecting the process of financialisation discussed above (Chabane *et al.* 2006, Ashman *et al.* 2011b).

BEE displays a narrow conceptualisation of transformation premised on the logic that relative stakes of equity ownership in financial market represents significant change. It was politically motivated by the desire to establish a black bourgeoisie and shaped in practice by the conglomerate structure, and its unbundling, financialisation, and the continued sway of the MEFC.

A critical sector in which black equity has been vigorously promoted is in mining. Aside from the increase in black mining moguls, an important consequence has been the establishment of large black-owned holding companies with diversified interests.

Evocatively, the incorporation of black capital into the heart of the South African economy has parallels with the previous inclusion of Afrikaner capital, as large back capital was simultaneously created and incorporated into the heart of the MEC (albeit in the latter's current "financialised" form), and political interests rapidly aligned with existing economic power. The latter is most blatantly apparent in that many of the newly empowered were drawn from the senior ranks of the ANC, and the ANC as an organisation, and to a certain extent the cooption of the trade union movement through huge investment funds. Unsurprisingly, mining and finance capital were at the forefront.

One important contrast is that the growth of Afrikaner conglomerates, whilst facilitated by the concentration of Afrikaner finance, spurred investment in the real economy. Under BEE the transfer of equity into black hands has not prompted widespread diversification and substantial investment in new enterprises. The speed with which these BEE acquisitions were accomplished is worthy of note, as the mechanisms for such integration were already established. All that was needed was a concerted drive by the ruling party and the acquiescence, or sidelining, of working class interests and institutions.

Notwithstanding the important changes in the structure of ownership within the South African economy as a result of conglomerate unbundling and rebundling, internationalisation, financialisation, and BEE, what results is a perpetuation of the, now financialised, MEC. The institutional forms and role players may have changed shape or colour, but the relationships at the heart of the MEC, between mining (and mining-related) capital and financial capital, and the interests to which these give rise, still exercise enormous influence on the economy at large. Further, despite the significant expansion of some non-MEC sectors (retail, telecommunications, services, tourism and healthcare), the transformations that have and have not occurred, together with the policies which supported them, have meant that a strong diversified manufacturing sector remains elusive.

This is the basis on which to demonstrate that macroeconomic policy has been far from neutral. Rather, despite protestations as to its 'neutrality', it has facilitated the nature of transformations described and the outcomes to which these have given rise, not least in narrowing how the macroeconomy is conceived and what is perceived to be, and presented as, macroeconomic policy. The earliest codification of policy which facilitated these transformations can be found in the Growth Employment and Redistribution (GEAR) programme of 1996, essentially a somewhat self-imposed structural adjustment programme which sits squarely within the neo-liberal, Washington Consensus, New Consensus Macroeconomic framework described above. It is to this that we now turn.

3 STRUCTURAL ADJUSTMENT

3.1 Growth, Employment and Redistribution (GEAR)

Despite having been succeeded by a slew of other policies, the 1996 GEAR programme remains critical on a number of levels. First, unlike many other policy documents the central tenets of GEAR – fiscal restraint, inflation reduction, and liberalisation – were implemented, notwithstanding that the growth and employment targets were never reached. Second, this paradigm has *overwhelmingly* guided macroeconomic policy over the last two decades. Put differently, despite being subsequently discarded (after it had served its purpose), it set the terms upon which future policymaking could proceed. With the exception of exchange rate management, microeconomic reforms, and government investment, ALL of the assumptions and stratagems derived from GEAR and discussed below continue to underpin macroeconomic policy.

Third, GEAR provided the cover under which a range of policies could be pursued that were critical to facilitating the restructuring described above, the emphasis on liberalisation was particularly important in this regard. Fourth, the trenchant support for, and defence of, GEAR served to close the door on other more progressive alternatives and paved the way for future conservative policy, for example, inflation targeting. Fifth, the failure of GEAR, even to achieve its own targets, is a telling illustration of the deficiencies inherent in the underlying approach taken. The criticisms made (and ignored) at the time have proven salient. Here, the weaknesses of GEAR, the assumptions that underpinned it, and the paradigmatic approach it illustrates, are interrogated, after which its role in restructuring is briefly considered.

GEAR argued that '[s]ustained growth on a higher plane requires a transformation towards a *competitive outward-oriented economy*' (emphasis added, Department of Finance 1996, p. 1). GEAR was, thus, fundamentally orientated towards promoting exports through increased private sector investment, particularly via attracting foreign direct investment (FDI). "Macroeconomic stability" – conventionally understood as 'stable prices, stable interest rates, predictable economic costs such as tax policies and regulatory regimes and predictability about future tax and interest rates' (Naidoo 2006, p. 116) – was the lynchpin of this strategy. Twelve years later Treasury officials noted that 'sustaining macroeconomic stability' has been the 'overriding objective of economic policy' (Faulkner and Leowald 2008, p. 12).

In order to achieve this, it was argued that government debt must be sharply reduced, inflation suppressed, trade and capital flows liberalised, the tax burden reduced, the real exchange rate maintained at competitive levels, and greater labour market flexibility engendered. A number of key assumptions underpin this approach, reflecting the *theory* employed:

> In brief, government consumption expenditure should be cut back, private and public sector wage increases kept in check, tariff reform

> accelerated to compensate for the depreciation and domestic savings performance improved. These measures will counteract the inflationary impact of the exchange rate adjustment, permit fiscal deficit targets to be reached, establish a climate for continued investor confidence and facilitate the financing of both private sector investment and accelerated development expenditure. (Department of Finance 1996, p. 5)

First, this presumes that *low levels of savings were a restraint on investment and that government 'dissavings' – via budget deficits – "crowded out" private investment* (Weeks 1999, Naidoo 2006, p. 112, Naidoo *et al.* 2008, p. 8). There is little evidence to support either proposition. As noted this draws a somewhat arbitrary distinction between national and global savings, ignores that local investment leads domestic savings, overlooks that in South Africa savings has consistently exceeded investment (Gelb 2006, p. 25), and discounts (against the evidence) that government investment can "crowd in" private sector investment, as has been shown to be the case in South Africa (Adelzadeh 1996, Gibson *et al.* 1996, Weeks 1999).

No analytical grounds nor evidence were offered for the argument that particular levels of government debt, by definition, have deleterious effects on the economy nor justification given for the specific target of a 3 percent debt to GDP ratio (more on debt below) (Adelzadeh 1996, p. 75). Even if it were the case the possible detrimental effects of deficits need to be balanced against the stimulus that such spending offers. Higher deficits can have stimulatory effects that spur economic growth in the medium- to long-term, allowing for easier repayment of the debt and the achievement of economic and social objectives (Padayachee 1994, Michie and Padayachee 1998).[8] A modelling of the two years of growth rates following the implementation of GEAR, in comparison to industrial economies whose growth rate the South African economy previously mirrored, showed that fiscal contraction hurt growth (Weeks 1999, pp. 11–13). The curtailment of government spending as well as talk of 'asset restructuring' (code for privatisation) implies a shift in service provision to the private sector which ignores the failure of the private sector elsewhere to deliver public goods and social infrastructure adequately (see for example Bayliss 2009).

More recently (as described below) it has been acknowledged that government spending can "crowd in" private investment and that investment in infrastructure enhances growth (see, for example: Faulkner and Leowald 2008, p. 13, Naidoo *et al.* 2008, p. 25). Such a theoretical position was advanced even within the mainstream, as part of endogenous growth theory, prior to the

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[8] Given South Africa's low levels of domestic investment and failure to attract FDI (or understand what would attract FDI) only a contraction in the domestic economy would lower the debt to GDP ratio. The alternative was to raise government investment spending and not lower taxes. Given the backlog of infrastructure and the dramatic effect this was, and is, having on the productivity and the price structure of the economy, the returns to targeted investment in useful fixed assets would have been, and remains, very high. Such investment would stimulate growth dramatically, and, therefore, potentially reduce debt to GDP by growing GDP quicker than debt and the interest payable on it, especially with adoption of supportive policy measures.

imposition of GEAR. Further, empirical studies suggest that the 'Verdoorn effect' is pertinent in South Africa, implying that faster growth in output will lead to increases in productivity (Streak 2004, pp. 281–282).

Second, it was argued that *high interest rates may be necessary to contain inflation but that deficit reduction would curb inflationary pressures and allow for a fall in interest rates that would spur investment*. It is shown below that this misunderstands the nature of inflation in South Africa and that interest rates are a blunt instrument in tackling inflationary pressures. There is no certainty that lower interest rates (although important) will, on their own, encourage investment, with investment decisions determined by a myriad of factors, such as crime, political and social stability, overall levels of demand and government investment (see Streak 2004, p. 280 citing numerous studies). Further, rapidly reducing inflation to arbitrarily set very low levels has negative consequence on output and employment (acknowledged by even the World Bank, see Adelzadeh 1996, p. 79). Such an approach makes government expenditure hostage to contractionary monetary policy.

Third, GEAR predicted that the *current account would deteriorate but that this was compatible with lower interest rates and a stable exchange rate because higher FDI would cover the current account deficit*.[9] This postulates foreign investment inflows precisely equal to the amount needed to offset currency movements, a highly unrealistic assumption, which has proved not to be the case. GEAR notes the 'integrity of this growth strategy is therefore dependent on maintaining a favourable investment climate' (Department of Finance 1996, p. 6). This tacitly appeals to the amorphous notion of "business confidence" – allegedly secured via "macroeconomic stability" – which is problematic as there is no well-established link between business confidence and investment. Rather, there is a consensus within mainstream literature that FDI is attracted first and foremost by market size, since most FDI is 'market seeking' in nature not 'efficiency seeking', market growth, and natural resources (in the case of resource seeking FDI). Secondary to these factors are cost and quality/productivity factors in the case of manufacturing FDI. GEAR did not specify mechanisms for attracting and leveraging FDI, for example via cluster policies or ways to maximise the benefit from resource seeking FDI.

In general GEAR argued in favour of *liberalising financial and capital flows*. Integrating the South African economy into global markets was necessary but the terms on which this integration took place were highly unfavourable. This is in part due to global factors, in particular the dynamics of global financial markets, but also the manner and nature of the financial liberalisation pursued and failure to transform the structure and priorities of the domestic financial market.

What resulted was poor levels of FDI, large outflows, and relatively high real interest rates that had to been maintained in order to attract foreign capital

[9] Other things being equal, a weaker current account would put pressure on the rand prompting the Reserve Bank to raise interest rates, thus undermining the proposed stimulatory impetus of lower interest rates (Adelzadeh 1996, p. 74, Weeks 1999, p. 9).

inflows, mainly short-term portfolio flows, to balance the current account. The manner in which the removal of exchange controls on the outflow of capital by domestic residents (individual and corporate) would enhance growth is unexplained and the negative impact of this on savings is overlooked (Adelzadeh 1996, p. 80). Further, the manner in which higher interest rates exacerbate the debt burden and repayments is also ignored (Adelzadeh 1996, p. 76, Roberts 1997, pp. 69–70)

Fourth, it was anticipated *that the current account deficit would also be curtailed via trade liberalisation, removal of exchange controls, and diversified exports* (Naidoo 2006, p. 113, Naidoo *et al.* 2008, p. 9). Exports did diversify somewhat but trade liberalisation, particularly in the absence of any meaningful industrial policy (in practice during this first phase, with some notable exceptions, industrial policy was essentially reduced to trade liberalisation), contributed towards the decimation of the manufacturing sector (Rodrik 2006, pp. 22–23). Trade liberalisation is not itself problematic, and is often beneficial – certainly the tariff structure in South Africa was incoherent and ad hoc – but without accompanying policies to unwind uncompetitive industries in an orderly fashion and support existing or new sectors, trade liberalisation can be devastating. Government strategy either misapprehended or wilfully ignored the extent to which 'global capitalism is a ruthless and cruel system for those who are not yet sufficiently competitive, skill intensive and shrewd to play the global game' and that there exists a danger in 'opening up a protected economy too rapidly' (Streak 2004, p. 280). Weak domestic production has meant that consumption growth in the early and mid-2000s led to increased imports and a worsening of the current account (discussed below). GEAR underestimated the impact of increased imports.

Fifth, the *emphasis on exports and liberalisation neglects the role of domestic demand in economic expansion.* Such domestic demand-led growth was part of the Reconstruction and Development Programme (RDP) (see below) but jettisoned by GEAR.

Sixth, GEAR proposed a *"social accord"* – a theme that has reappeared more recently – which essentially *asks labour to compromise on wages and capital to invest more*. However, given capital mobility, and minimal industrial policy, there is no compulsion for capital to do so in a socially reconstructive manner. Further, given high rates of profit, investment is hardly an onerous expectation. In line with this GEAR estimated that approximately 45 percent of new jobs would derive from institutional labour market reforms (Michie and Padayachee 1998, p. 628) and yet the labour market is mischaracterised. First, the demand for labour is estimated purely on the basis of the real wage overlooking the role that overall levels of demand and sectoral specificities (e.g. capital-intensity in mineral sectors) play in determining employment. The 'Verdoorn effect' demonstrated in the South African case indicates that overall levels of effective demand, not input prices, are key in determining output and employment levels (Michie and Padayachee 1998, p. 629). Second, it implies that there exists a high degree of labour market inflexibility without providing evidence of this and in contradiction to detailed studies of the South African labour market (see:

Standing *et al.* 1996a).[10] Third, when stressing that wage increases should not exceed productivity gains GEAR ignores the evidence that low (higher) wages can translate into low (higher) productivity and overlooks that low productivity also has other causes, particularly poor management in the case of South Africa, as highlighted in the ILO report. Fourth, the wage gap, and the moral and economic imperative to close this, is evaded.[11]

The policy debate that formed the backdrop to GEAR drew extensively on international evidence (although GEAR fails to provide a successful international example validating the approach taken) but crucially, the approach taken, and policies subsequently implemented, *ignore* the *specificities and structural features* of the South African economy (Michie and Padayachee 1998, p. 628). It is insufficient to promote SMME development (ignoring that this has been done ineptly) whilst skirting the structural concentration within the economy, and indeed perpetuating it via continued IDC funding for large-scale, capital-intensive mining and energy related projects (see for example Roberts 2008).

Ideologically and *scholastically* GEAR sits squarely within a supply-side/new classical paradigm with a minimal role for the state and the assumption that markets cannot be led or that this is not necessary or desirable (Terreblanche 2009, p. 5). As should be clear GEAR is littered with Washington Consensus prescripts. It is a *growth first strategy*, with growth spurring employment that will allegedly lead to greater equity and redistribution; a classic "trickle down" programme. It lauds economic growth but pays *scant attention to composition of that growth*. It assumes a 'tight, mechanistic link between private sector-led growth, employment creation and poverty reduction' (Streak 2004, p. 281) relying on private investment and labour market flexibility to generate a "virtuous cycle" that will reduce poverty and inequality via employment creation. It thus takes a *narrow view of redistribution* paying relatively little attention to social service provision (in itself) and the role this can have in spurring growth (Michie and Padayachee 1998, p. 628). In addition when read closely, GEAR actually enshrines an anti-labour bias with the total wage bill projected to rise by 3.9 percent, below the rate of growth of national income (4.2 percent), indicating a shift in the profit share in favour of capital.

In taking this stance government was either relegating equity to a secondary (or irrelevant) concern or implicitly designating a trade-off between equity and growth (or both). Subsequent policy makes the latter explicit, for example the Medium Term Strategic Framework (MTSF) 2004 – 2009 notes the need to 'balance between short-to-medium-term equity concerns and medium-to-long-term growth concerns' (Presidency 2004, para. 18). However, there is little

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[10] The demanding and arguably unnecessarily complicated labour legislation must be approached separately to the issue of flexibility with respect to wage determination discussed here.

[11] There are other shortcomings in GEAR: the main model used was deeply flawed and not made public, nor was there evidence that it was restructured after the demise of apartheid to account for new social priorities (Adelzadeh 1996, pp. 68–70); 93 percent of the total stimulus was estimated to come from private investment; and corporate and personal taxes were projected to decrease despite studies indicating that the country was under-taxed by about 3 percent of GDP (Adelzadeh 1996, pp. 76–78).[11]

evidence that such a trade-off necessarily exists with the United Nations 1996 *Human Development Report* indicating the opposite (United Nations 1996).

Rhetoric to the contrary aside, this is a far cry from the Reconstruction and Development Plan (discussed below) which carefully unpacked structural features of the economy and sought to integrate 'growth, development, reconstruction and redistribution into a unified programme' (ANC 1994, para. 1.3.6), and earlier ANC approaches that sought *growth through redistribution* (see section four).

The continued emphasis on liberalisation was critical to the *restructuring* that was already underway and accelerated with the implementation of GEAR policies. Lifting of restrictions on capital flows and offshore listings facilitated the restructuring of the conglomerates, and the internationalisation of their operations, and the integration of South Africa corporates into global financial markets and the subsequent processes of financialisation that took place. The new role this afforded foreign investors, as well as the failure to transform the financial system, were important to this latter process. Similarly, 'financial stability' – affected in the form of tight monetary policy, high real interest rates, and stringent attempts to contain inflation – was given prominence and was a clear boon for financial market players. GEAR is a classic neoliberal growth strategy in that it allows greater facets of economic life to come under the sway of "market forces", and financial markets in particular.

How such a conservative agenda came to achieve such prominence is the subject to which we now turn.

3.2 The Rhetoric of Crisis and "Macroeconomic Stability"

The ubiquitous rhetoric employed in support of the policies previously enumerated has had four components. First is that the South African economy was in crisis and in dire need of "stabilisation". Second is that there were no other viable alternatives. Third is that this stratagem was in line with the social and redistributive agenda of the RDP and the traditional pro-poor agenda of the ANC in the spirit of the 1955 Freedom Charter. And fourth is that it offered a feasible means through which to achieve those ends. The first two are tackled here and the latter two in section four.

There can be little doubt that at the end of apartheid the South African economy was in poor shape. Like much of the capitalist world South Africa suffered a structural slowdown of economic growth in the 1970s. Despite dynamism in particular sectors, political instability, sanctions, and the debt crisis of the 1980s, followed by a severe drought in 1992, a global recession, policy uncertainty, an acute shortage of foreign exchange, and large capital outflows meant that by the end of apartheid the economy was fragile (Gelb 2006, Naidoo 2006, Faulkner and Leowald 2008). In March 1989, South Africa entered its longest downturn since 1945 lasting until May 1993 (Faulkner and Leowald 2008, p. 10) (see Figure 1). In 1993, the budget deficit stood at 9.5 percent of GDP, with government debt having burgeoned from 29 percent of GDP in 1991 to 47 percent in 1994/5 (Presidency 2003, p. 33, Gelb 2006, p. 21, Faulkner and Leowald 2008, p. 10) (see Figures 3 and 4) . In 1994, inflation stood at 9 percent, down from 15.3 percent in 1991, having averaged 14.1 percent between 1985 and 1994 (Gelb 2006, p. 17, Smit 2006, p. 84) (see Figure 8) with the Reserve Bank holding a meagre one month's import cover of foreign exchange reserves and a hefty net open forward position of $25 billion in 1994 (Presidency 2003, p. 33). These were the *acute short-term* macroeconomic challenges that confronted the ANC during transition negotiations and the new Government elected in 1994.

These facts played, and continue to play, a crucial role in policymakers and orthodox economists justifying the policies pursued in the 1990s and early 2000s. The fiscal deficit and inflation rate provided the basis for tight fiscal and monetary policy, and together the above justified the need for "stabilisation". The rhetoric of impending doom, reaching a crescendo with the currency crisis in early 1996, was employed, at the time and consistently since, to justify the GEAR agenda. By way of example, the Government's 2004 *Ten Year Review* (Presidency 2003, p. 32) cites a 'fiscal crisis', and senior treasury official Kuben Naidoo (2006, p. 110) describes the economy as 'literally on its knees' and in 'a crisis mode'.[12] Regarding the need to "temper" the RDP Naidoo cites the low savings rate, the expensive and risky nature of borrowing from abroad, the capacity of the public service, and constraints on domestic suppliers (Naidoo 2006, p. 112); this position is echoed by other establishment economists and analysts (for example Aron *et al.* 2009a, pp. 4–5, see also Naidoo *et al.* 2008, p. 7).

Such scaremongering needs to be put into some perspective. Government debt was not excessively large by international, even Maastricht, standards[13] (Freund and Padayachee 1998, p. 1174) and even the World Bank foresaw a viable scenario of increasing the deficit, allowing it to peak at 12 percent in 1997 (Adelzadeh 1996, p. 75, Michie and Padayachee 1998, p. 627, Bond 2000, p. 175). The democratic government also accepted apartheid South Africa's debt *in toto*, including the loans made to the nefarious Bantustan governments to ensure their acquiescence and the debt incurred due to the restructuring of apartheid era civil servants' pension plans (on the latter see Hendricks 2008). To add insult to injury the debt was rescheduled on unfavourable terms (a full percentage point above the LIBOR rate) with financial consultant Charles Millward noting, 'My London contacts think the big European banks just walked all over the Reserve Bank rescheduling team' (Bond 2000, p. 177). Regarding inflation it should be noted that South Africa's inflation rate was already declining from its peak in 1991, and even during the worst decade (1985-1994) was almost half of the emerging market country average (14.09 percent compared with 22.57 percent) (this is discussed further below) (Smit 2006, p. 84). In the following decade many of those with higher inflation rates achieved considerably higher

[12] For an example see how Naidoo et al. (2008, p. 10) use such a crisis to justify cuts in government spending

[13] For the years 1990 to 2010 South African central government debt as a percentage of GDP was higher than the OECD average only in the years 1998 – 2002, between 1990 and 1996 it was lower than over 50 percent of OECD countries (for which there is data) (OECD 2014, SARB 2014).

GDP growth.[14] The public service was weak but where political will existed, for example in the Treasury or the South African Revenue Service (SARS), capacity was built.[15] Finally, whilst there were constraints on domestic supply it is unknown whether coordinated industrial policy could have overcome these.

On the other hand, the structural problems facing the South African economy at the demise of apartheid were, as already discussed, truly immense (see section 1.1 above). This included: failing investment, low savings, rising unemployment, widespread poverty, heavy concentration and reliance on MEC sectors, poor growth in manufacturing, a financial sector not geared towards developmental needs, and a highly skewed distribution of social and economic resources.

In the end, the government chose to pursue *short-term stabilisation* and this came at the expense of a *long-term reorientation of the economy* to meet the redistributive and developmental needs of the country, even if this was not the intent. Policymakers, and their defenders, used the crises (real and manufactured) to argue that *we simply had no other choice*. Of course, it *was* necessary to stabilise the economy and "macroeconomic stability" or "balance" is a good thing, no one would argue for an unstable economy. Further, GEAR did "stabilise" various macroeconomic indicators (for example, debt levels) (Naidoo *et al.* 2008, p. 14), although some "successes" credited to it, for example bringing down inflation, were attributable to a confluence of factors.

If "crisis" precipitated the need for "stability" then "stability" was the natural prerequisite for "securing business confidence", another notion which became dominant and has persisted. Liberalisation and tight macroeconomic policies have been validated on the basis that they would increase business confidence and lead to a lowering of borrowing costs and greater foreign investment, despite little economic substantiation to indicate this is necessarily the case. Further, as Fine notes 'to appeal to the need for business confidence is to apologise to business for the ANC having come to power' (1995b, p. 20). Treasury officials phrase this in terms of the new democratic government lacking 'credibility in the area of economic management' (Naidoo *et al.* 2008, p. 5). Echoing GEAR, the notion of "securing business confidence" is premised on the understanding that business is an "objective" force, needing neither to be lead nor cajoled, but simply provided with a free and stable market that will prompt investment and development. This has proved not to be the case and

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[14] South Africa's average inflation rate between 1990 and 1996 (11.8 percent) was almost exactly that of the average inflation rate for middle-income countries for the same time period (11.6 percent). However, in the following 17 years (1997 – 2012) South Africa's average growth rate (3.2 percent) was well below the average of middle income countries (5.5 percent)

[15] The issue of the capacity of the public service was then, and is today, a real one. The public service that the democratic regime inherited was white, inefficient, demoralised and, at times, obstructive, and many subsequent reforms have left the service undertrained, inexperienced and riddled with careerism and widespread corruption and nepotism. This said, the point to acknowledge is that a failure to prioritise building a strong public service in the early years of democracy is not apolitical. If the new government had truly been committed to forging a developmental state then it, by definition, would have needed to bolster the public service vigorously beyond Treasury and Presidency that were well served. Its failure to do so is a further indication that its political and economic agenda lay elsewhere.

intervention of the right source can engender a more conducive environment for investment. Unreservedly buying into the "business confidence" narrative has bound the ANC, willingly or not, to a set of policies it is too costly to alter lest they now "lose" business confidence. Put polemically, in the sphere of macroeconomic policymaking "the markets" become a far more important constituency than "the people".

"Stabilisation" is therefore not a politically neutral or scientifically objective concept. It is critical to note that stabilising an economy means *stabilising certain variables around a particular growth path, or system of accumulation*, an obvious insight studiously avoided by the mainstream. In this case what was stabilised was the most recent manifestation of the MEC as described above. This is multidimensional; on the one hand there is the choice to pursue short-term stabilisation at the expense of long-term reorientation, and on the other there are the choices as to *which variables* are to be stabilised (for example, inflation and debt and not employment) the *levels* that are considered appropriate for "stability" and the *urgency of achieving these,* all of which are open to contestation. As already noted there is little economic evidence to support the inflation and fiscal deficit targets chosen and the timeframes in which these were to be achieved. The targets and timeframes adopted, and the policies pursued in order to achieve them, were underpinned by Washington Consensus dictates and IMF prescripts, and essentially amounted to a structural adjustment programme. All these choices facilitated the entrenchment of the inherited system of accumulation and the restructuring of the form that system took, as described above.[16]

Given all this, was short-term "stabilisation" – via any means necessary – the objective priority and was there no alternative but structural adjustment? Both of these must be answered in the negative. "Stability" could have meant a slightly higher inflation rate and a longer-term debt reduction programme allowing room for fiscal stimulus. "Stability" could also have been achieved alongside a reorientation of the economy, redistribution, and social service provision, which could have been used to spur economic growth, investment and employment along the lines of the programme put forward by the Macrcoeconomic Research Group (MERG) (1993) and partially captured in the RDP.

Instead the *rhetoric of crisis* – referencing short-term concerns – was used to buttress support for the policies encapsulated in GEAR. These policies actually have their roots in the late apartheid regime's faltering steps towards liberalisation and monetarism and in policies enacted during the first two years of the democratic government. Once again we emphasise this here because this "stability" has been prized above all else over the past two decades and remains the cardinal feature of macroeconomic policy. This ignores what was chosen to be stabilised (debt and inflation not, for example, employment) and the growth path around which this stabilisation took place. It also fails to acknowledge the

[16] Note that there is an important difference here between "restructuring", which refers to a meaningful reordering of structures within the economy (particularly capital ownership structures) within a given growth path or system of accumulation, detailed in section two, and "reorientation" which would entail a change in the latter.

varied terms (e.g. levels of inflation and debt) upon which stability could be premised.

The terrain of this *coup d'être*, to which we now turn, also speaks poignantly to the rhetoric, policy practice, and scholarship guiding ANC thinking and actions, which was highly contested in the early 1990s before it solidified into what has been described above.

4 THE RDP AND POLICY SHIFTS?

4.1 The Reconstruction and Development Plan (RDP)

Prior to the ascent of the ANC to government the economic policies of the apartheid regime, in the 1970s and 1980s, in line with trends in much of the capitalist world, veered towards conservative "free market" ideology, advocating export promotion (via the Reynders Commission, 1972), financial sector liberalisation and monetarism (via the De Kock Commissions, 1978 and 1985), and labour market reform (via the Riekert Commission) (Aron *et al.* 2009a, p. 4). These plans were only partially and unevenly implemented, subjected to internal contestation and constrained by international factors. Nevertheless, they represented a greater emphasis on free markets and marked a shift in economic thinking (Nattrass 1988).

From the ANC it was clear in its 1988 Constitutional Guidelines (glaringly short on details) that it was committed to some sort of "mixed economy" (Nattrass 1994, p. 345), balancing government intervention and market forces. By 1990 it had ruled out radical leftist policies but not a Keynesian-style programme (Michie and Padayachee 1998, p. 632). To an extent this was captured within the Reconstruction and Development Plan (RDP), the manifesto with which the ANC entered the 1994 elections, which prior to GEAR was the most important ANC economic policy programme.

The macroeconomic policy of the RDP was underdeveloped but, unlike GEAR, it clearly emphasised the integration of 'growth, development, reconstruction and redistribution into a unified programme' (ANC 1994, para. 1.3.6) and *did not make redistribution and development contingent on the prior achievement of particular levels of growth*. It contained a strong demand-driven stimulus primarily in the form of fiscal spending on economic *and* social infrastructure, and a welfare-statist emphasis on 'meeting basic needs'. In its own words: 'The link between meeting basic needs through an infrastructural programme and reviving economic growth in manufacturing and other sectors is the essence of the link between reconstruction and development' (para. 4.6.1). The plan saw such government spending as having a clear multiplier effect.

The state was to play 'a leading and enabling role in guiding the economy and the market toward reconstruction and development' (para. 4.2.3) premised on the understanding that the market would not spur the necessary structural transformation on its own (para. 4.3.1). The RDP criticised 'trickle-down development' (para. 1.3.5), 'privatised and commercialised' public agencies (para. 4.1.10) and structural adjustment programmes (para. 1.4.17). It proposed specific progressive measures, including: an overhaul of the financial sector (para. 4.7); buttressing the manufacturing sector; a cautious line on liberalisation (para. 4.2.2.9, and para. 4.4.3.3); the cross-subsidisation of water and electricity prices (para. 2.6.10 and para. 2.7.8); the establishment of an integrated National Health Service (NHS) (2.12.5.1); substantial social security and welfare benefits (2.13); particular attention to women and women's rights (e.g. para. 2.2.7); and emphasis on affirmative action (4.8.13) and black economic empowerment.[17]

The RDP certainly also had strong centrist and right-wing tendencies (see below) but its thrust was not simply hand-waving at a progressive agenda in order to placate certain constituencies within the ANC and the alliance (as has become routine in subsequent policy documents). There is probably an element of this, for example proclamations that the 'minerals in the ground belong to all South Africans, including future generations' (para. 4.5.1.2), but it is indisputable that the RDP had a leftist Keynesian interventionist ethos that is absent in later policy documents.

It is precisely these facets that were unceremoniously ditched almost immediately after the ANC came to power with the formation of the Government of National Unity (see below). The 1994/5 budget – the first major financial statement of the post-apartheid government – allocated a paltry sum of R2.5bn to RDP expenditure in a series of piecemeal public sector investments and clearly sought to reduce the debt to GDP ratio rapidly, thus curtailing funds available for stimulating investment (Padayachee 1994, pp. 591–592). The White Paper, tasked with fleshing out the RDP, contains telling departures from the original:[18] redistribution is dropped as a main objective and the interdependence of redistribution and development mutates into one between 'growth and development' (p. 4); the fiscal deficit takes on new prominence (p. 4 and para. 4.1.2) together with a far greater stress on 'affordability' (para. 1.3.2), 'belt-tightening' (para. 4.2.5) and fiscal and monetary discipline (para. 3.3), indicating a transformation of 'the role of fiscal prudence from a means to achieve RDP objectives to an objective of the RDP' itself (Adelzadeh 1996, pp. 66–67); theoretical critiques of orthodox programmes are removed and new emphasis placed on the private sector (para. 1.3.6); the role of the state is neutered and it is now tasked with 'facilitating efficient markets' (para. 3.5.3); and far greater weight is given to foreign investment and the means necessary to attract it (para. 3.5) with no detailed plans for government-led domestic investment programmes. Needless to say, the White Paper was embraced by business whilst COSATU correctly noted that it will 'reduce the RDP to no more than a social net to cushion the impact of job losses and poverty' (cited in Bond 2000, p. 99).[19]

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[17] Some on the Left have argued that the RDP represents a 'consistent macroeconomic framework, using the Keynesian paradigm' (Adelzadeh 1996, p. 66). This is giving the RDP too much credit. It provides a comprehensive agenda for social development but its macroeconomic policy elements are underdeveloped and potentially contradict other facets of the plan. This is taken up below.

[18] A careful reading of the RDP White Paper is revealing as many of the paragraphs are lifted directly from the RDP and so the additions or modifications are brazenly revealed.

[19] Concurrent to publishing of the RDP White Paper, were the release of the 1995 *Urban and Rural Development Strategies* (UDS and RDS) and the stillborn 1996 *National Growth and Development Strategy* (NGDS). These cemented a conservative approach with the former being underpinned by scholarship popularised by the neoliberal apartheid era think tanks of the Urban Foundation and the Private Sector Council on Urbanisation (see Bond 2000, chap. 3).

The "shift" away from the RDP was noticeable not only in policy documents but also in policy in practice. The implementation of an orthodox stabilisation programme preceded GEAR with the EIU 1995 *Country Profile* noting that the government appeared to 'accept the previous government's emphasis on low inflation over rapid growth and job creation' (quoted in Michie and Padayachee 1998, p. 625). The two most influential economic policy portfolios in the ANC-led Government of National Unity (GNU) – the Minister of Finance and Governor of the Reserve Bank – were left in the hands of National Party apartheid era appointees, as was the Department of Mineral and Energy Affairs under former Foreign Minister Pik Botha. The GNU undertook rapid trade, financial and capital account liberalisation, implemented contractionary monetary policy, cut taxes, adopted fiscal deficit targeting, instituted expenditure cuts even as the debt came down, and prioritised reassuring "the markets" and establishing "business confidence" (Freund and Padayachee 1998, pp. 1175–1176, Michie and Padayachee 1998, pp. 625–626, Gelb 2006, p. 20, Ajam and Aron 2009, pp. 6–7). At the same time the ANC, at its 1995 conference, accepted the need, "in principle", for privatisation. Unsurprisingly in this context, it became clear that the provision of certain social services was to be curtailed and in instances delegated to the private sector. Once such policies were enacted the costs of changing course increased.

How are we to make sense of the RDP's abandonment? The most compelling answer is given by Fine who wrote in 1994: 'the document [the RDP] does not represent the ANC's policy in anything other than a formal sense. Policy making is being made in spite of and outside the context of the RDP.' How and why this is needs to be unpacked. Fine continues, with some prescience, to argue: 'Irrespective of its content, which is relatively weak in any case, the RDP is potentially subject to a process of marginalisation … It has the prospect of becoming, by analogy, a talisman of political correctness … It is likely to be observed more in breach of its quantitative targets than in their realisation.' (1995b, p. 30)

Both these conjectures have come to pass. Few, if any, RDP targets were met and central planks of the RDP's theoretical approach were jettisoned early on. Despite this, the RDP is evoked rhetorically in a ubiquitous manner, with every significant subsequent macroeconomic policy document claiming to be the progeny of, or giving additional substance to, the RDP, no matter how wildly inaccurate such assertions might be (with particular reference to the alleged continuity between the RDP and GEAR see: Presidency 2003, p. 32, Aron and Muellbauer 2007a, p. 725, Faulkner and Leowald 2008, pp. 10–11, Ajam and Aron 2009, p. 3, Aron *et al.* 2009b, p. 6).[20]

The somewhat vague and inconsistent nature of the RDP is what gives such claims a degree of credence; the RDP meant different things to different people.

[20] Freund and Padayachee (1998, p. 1175) note: 'The RDP became (at least at the level of rhetoric) the discourse around and behind which all sections of the population, including the dominant white business community, and even old apartheid politicians and bureaucrats, began initially to mobilise. It was vague enough not to be threatening to anyone, and general enough to be interpreted by different constituencies according to their own understanding and interest.'

In addition to the progressive policies described above – that themselves, fall short of a comprehensive economic programme – the RDP has salient centrist and conservative facets. A trenchant, corporatist philosophy pervades much of the RDP with the presumption that the government will step in to correct market failures and that a social compact can be forged between the state, capital and labour to ensure successful capitalist development.

The crucial sections on the economy (part 4) and on financing the RDP (part 6) have definitive conservative elements. The emphasis on preserving 'macro-economic balances' via '*prudent* implementation of macro-economic policies' and avoiding 'undue inflation' (para. 4.2.2.1 and para. 6.2.3), the promotion of liberalisation (para. 4.4), and the tacit endorsement of central bank independence (para. 4.7.7), stand out. The lack of attention to monetary policy is striking, as is the failure to protest the onerous repayment of apartheid debt, with each opening the way for tight monetary policy. The structure of the RDP successfully drew an artificial distinction between progressive micro-social policies and what has become known as 'sound' macroeconomic policy, building an enduring myth that it is feasible to 'combine a social welfare state in the development sphere with neoliberalism in the economic sphere' (Bond 2000, p. 54). It is precisely the latter tendencies that were amplified, and to which the former were subordinated, both in future policy papers and in policy in practice.

4.2 The Contestation Over Economic Policy and the Formation of Economic Policy in Practice

How are we to make sense of the ANC's slide into economic neoliberal orthodoxy, most succinctly captured in GEAR? During the transitional negotiations and in the first few years of democratic South Africa there was a high degree of contestation over the future of economic policy. The ANC zigzagged on crucial policy issues, often in a tussle between its more economically conservative leadership and its membership base and civil society partners. This is evident in ANC discussion and conference documents of the early 1990s (see Nattrass 1994). One of those constituencies, COSATU, strongly advocated progressive economic policies that found support within the grassroots base of the broad anti-apartheid movement and ANC. On the other side of the aisle, the efforts of South African white business elites from the mid 1980s onwards spawned the rhetoric of a "social contract" and initiated the distinction between a progressive social agenda and neoliberal economic policy prescripts that powerfully influenced the thinking of top ANC officials. The Normative Economic Model (NEM) of the outgoing apartheid era National Party Government called for 'a process of structural adjustment in the development market economy and a reconstruction of its less developed socio-economic framework, in particular the equitable access of all South Africans to all opportunities in the economy' (Finance Department's Professor Lombard quoted in Bond 2000, p. 76). International capital and the international financial institutions together with western governments also weighed in on the debate advancing classic Washington Consensus policies although this period coincided with one in which these policies were gradually being moderated. This conformed with the second phase of neo-liberalism, incorporating specificities for South Africa in light of the heritage of apartheid and need to catch up with financialisation and globalisation.

Contestation continued over the first two years of the democratic regime. The ANC was increasingly criticised by big business for the absence of an overall macroeconomic blueprint. With the South African Foundation – a consortium of South Africa's fifty most powerful companies – publishing its own blueprint, *Growth for All* (SAF 1996), this spurred the South African Labour Movement (including COSATU) to accelerate the publication of its own *Social Equity and Job Creation* plan (SALM 1996). Despite the ANC initially distancing itself from the SAF's *Growth for All* (ANC 1996), GEAR is squarely set in its mould and was launched as 'non-negotiable' in mid-1996, not by coincidence preceding the release of the International Labour Organisation's (ILO) report on the South African labour market (Standing *et al.* 1996b), and the Labour Market Commission Report (Government of the Republic of South Africa 1996a), both recommending less orthodox and more progressive policies (Michie and Padayachee 1998, pp. 626–627).

With the crises (real or exaggerated) discussed above as cover, and under pressure for domestic and international capital, many in the ANC argued that there was simply no alternative. The behaviour of senior ANC officials in this transition period is revealing of ANC economic policymaking more generally. Within the ANC, it has long been an extremely centralised and somewhat secret affair. This was true of the Department of Economic Planning (DEP) during negotiations and of the ANC in government. Rhetoric of transparency to the contrary, ANC parliamentarians were kept in the dark over the 1994/5 budget (Padayachee 1994, p. 592) and GEAR was announced as "non-negotiable" from above with no broader consultation within the ANC (Terreblanche 2009, p. 86).

The ANC was undoubtedly responding to the balance of forces of the time: the rise of the hegemony of market ideology; the great sway of international financial agencies; the limitations placed on an untested government from international financial investors, globalisation and financialisation; and the power of domestic capital whose levels of investment in South Africa, the ANC leadership wished to increase (Habib and Padayachee 2000, pp. 253–255). The negotiations, scenario planning, special educational opportunities for ANC officials, and intense lobbying by domestic capital all played a role. So too did the IMF and World Bank who exerted both "hard" pressure – for example, the 1993 Letter of Intent – and "soft" pressure – for example, the posse of World Bank advisors – on the ANC and GNU.[21]

That such pressures existed is beyond doubt but this does not mean that the ANC had its hands tied. Mirroring our discussion of the rhetoric of debt, capital was extremely successfully at making the case that liberalisation, etc, was a perquisite for investment. However, there is no proof that capital would not have

[21] For more discussion of the role of the IMF and World Bank in South Africa see Padayachee (1994) and Bond (2000), respectively.

invested given more interventionist policies, and no guarantee that capital would invest in the face of liberalisation. Indeed, reality has proved expectations of investment foolhardy, and capital flight appears to have been a motive for liberalisation. Further, the material conditions for capital accumulation are often ignored. These could have continued to be favourable despite government intervention and regulation; mining capital, for example, was not about to pack up and leave the most mineral-rich country in the world. In this way, senior ANC policymakers either underestimated or wilfully ignored the power they did have to dictate conditions to capital. As discussed above, the successful framing of economic policy along the lines of a situation of crisis in need of stabilising in order to secure business confidence, has gone a long towards advancing and securing the interests of large capital, and facilitating the restructuring already outlined.

4.3 From the RDP to GEAR

The RDP has served as the rhetorical *leitmotif* of economic policy over the last two decades. In practice GEAR was South Africa's first macroeconomic policy package even before it was drafted. Whilst the RDP has been consistently evoked it has been observed more in breach than in practice.

The centrality of the developments of the 1990s in setting the trajectory for subsequent economic policymaking should not be underestimated. This discussion has brought to light the deep roots of the ANC's conservative economic policies as well as the use of progressive rhetoric as cover for implementing these. It has shown that, notwithstanding the pressures the ANC encountered, alternatives were possible. However, these were gradually precluded and unequivocally rejected with the implementation of GEAR. Nowhere is the conservativism signalled by GEAR more apparent than in monetary policy, the contours of which and its role in restructuring, to which we now turn.

5 MONETARY POLICY

The adoption of inflation targeting in 2000 as the monetary policy framework represents the logical culmination of the trends in South African monetary and macroeconomic policy over the preceding decade. It is firmly grounded in the prevailing economic orthodoxy, justified by the rhetoric of macroeconomic "stability", and prioritises the imperatives of maintaining low inflation and attracting foreign capital inflows. These are advanced as the necessary prerequisites to market-led economic growth from which development and employment will flow; it is cast therefore as a step in fulfilling the alleged transformative agenda of the ANC. In all of these ways it sits squarely within the economic framework codified in GEAR, and has been pivotal to all subsequent macroeconomic policy.

It must be recalled that monetary policy is accorded cardinal importance in NCM thinking, where fiscal policy is seen as ineffective in the long run and potentially harmful in the short run. Understanding the implementation, mechanics, and theorisation of inflation targeting is therefore very important.

It must also be recalled that within NCM monetary policy has been conceived very narrowly and in isolation from financial market policy; this is highly problematic. As will be illustrated here in many ways monetary policy has served to prioritise financial market liberalisation and expansion. Comparatively high real interest rates,[22] particularly preceding the 2007/8 financial crisis, purportedly implemented to contain inflation, have been crucial in sustaining (short-term) capital inflows that have been necessary to balance ongoing capital outflows (discussed in more depth below). In recent years, somewhat lower real interest rates have buttressed the financial sector via the provision of cheaper credit. The inflation-targeting regime has legitimised particular levels of interest rates, despite little evidence to suggest that manipulating interest rates is the most effective manner of containing inflation, and the interest rates set have facilitated the transformations in the economy already described, particularly financialisation.[23]

Here, we begin by explaining and analysing monetary policy and then continue with an evaluation in terms of its own stated objectives. We then proceed to

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[22] Real interest rates refer to lending interest rate adjusted for inflation as measured by the GDP deflator, the World Bank data is used here. Crucial also is the spread between South African real interest rates and those of other countries, most importantly the core capitalist countries and the United States in particular. When we speak of *comparatively* high real interest rates this means that irrespective of the actual levels of those rates they are high in comparison with other countries (that is, there is a large interest rate spread between the countries). Evidence for this is provided in section 5.5 and Figures 8 and 9.

[23] This paper does not attempt to deal with financialisation in great depth as this is covered by other PERSA Working Papers (see also Mohamed 2003, 2008, Ashman *et al.* 2011a, 2011b, Isaacs 2012). However, the relationship between monetary policy (a key concern of this paper) and financialisation is important.

uncover the actual consequences of monetary policy and how these have been vital to the transformations that have occurred within the economy.

5.1 The Evolution of Monetary Policy

In line with NCM thinking price stability emerged as the key stated policy objective in the late 1980s and early 1990s.[24] Critical to the evolution of monetary policy in South Africa was the 1985 De Kock Commission,[25] although its recommendations were only gradually taken up. It advanced that the South African Reserve Bank (SARB) 'should primarily be charged with … protecting the internal and external value of the currency' (Government of the Republic of South Africa 1985, p. 253). This was incorporated into the Bank's mission statement of 1990 and the 1993 Interim Constitution. The Commission also advocated joint responsibility between the Reserve Bank and Treasury over monetary policy, whilst promoting Reserve Bank independence.

Until 1998 the SARB pursued the dual policy objectives of curbing domestic inflation and stabilising the exchange rate. Between 1996 and 1998 the currency plummeted in successive crises (see Figure 6) and the interventions aimed at exchange rate stabilisation proved both futile and extremely costly.[26] These failed interventions cemented the decision to jettison the dual objectives of stabilising both the internal *and* external value of the rand in favour of an exclusive focus on domestic price stability. Moves towards this were already evident in the self-conscious rewording of the 1996 Final Constitution, which defined the SARB mandate as simply to 'protect the value of the currency' (Government of the Republic of South Africa 1996b, para. 224.1). In 1998 the Reserve Bank announced its intention of aligning domestic inflation with the inflation rate of South Africa's major trading partners – essentially its first inflation target. On 23 February 2000 South Africa officially adopted an inflation targeting monetary policy regime.

Inflation targeting in South Africa was specified as a commitment to a 3 to 6 percent target range; this was set by Treasury in consultation with the SARB, with the latter having "operational independence" in achieving this end. The target was originally set to be achieved as an average over a calendar year, and then revised, in 2003, to be achieved on a continuous basis. Over time the SARB has taken a somewhat more flexible approach and does not attempt to bring

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[24] Prior to this other monetary policy regimes, using a variety of policy instruments and indicators had prevailed (see Aron and Muellbauer 2007a, p. 709). In the 1980s monetary policy was somewhat opaque and subordinated to the more general needs of supporting the apartheid state, with the SARB far from independent (Rossouw and Padayachee 2011).
[25] The Gerhard de Kock Commission of Inquiry into the Monetary System and Monetary Policy in South Africa.
[26] The SARB's net cumulative intervention (between mid-February and the end of April 1996 alone) was US$5.3 billion, and its net open forward position (NOFP) expanded from negative US$12 billion to US$23 billion between April and August 1998 (Aron and Muellbauer 2007a, pp. 726–727).

inflation within the target range over the shortest possible time horizon.[27] Further, the "explanation clause" allows the SARB to communicate expected deviations in the case of adverse supply-side shocks.[28] The SARB uses the repo lending rate as the prime policy instrument, with interest rates raised to curb inflation.[29] The SARB has replaced a single large-scale macroeconomic model, used for forecasting, with a more compact or core model, supplemented by various other models (Aron and Muellbauer 2007a, p. 711). More recently, the SARB has been instructed to *take into account other factors* that impact upon sustainable growth, as noted in the 2010 letter from the Minister of Finance to the SARB.

As already stated, monetary policy should be viewed more broadly and take greater account of finance. In this respect, the 1985 De Kock Commission also advocated financial liberalisation. During the 1980s moves were made to liberalise financial controls, but were partially thwarted by the "financial sanctions" and the debt moratorium of 1985. As noted in previous sections financial liberalisation and the expansion of the financial sector proceeded apace after the installation of the new government and feature prominently in GEAR. This included: the abolition of the financial rand; the phasing out of exchange controls and the liberalisation of capital outflows; allowing companies to list offshore; permitting foreign companies to access domestic credit; granting local investors the ability to invest greater funds offshore; and expanding domestic financial markets, including derivative markets. Inflation targeting is taken up in its own right before returning to the relationship between this and financial liberalisation.

5.2 Inflation Targeting: The Scholarship

The defining feature of inflation targeting is that 'there is a pre-announced target for inflation that defines the goal of monetary policy and provides a benchmark for the accountability of the central bank' (Kahn 2008, p. 124). It formally makes domestic price stability the central (sometimes only) goal of monetary policy, to which all else is subordinated. Other hallmarks of inflation targeting regimes, most notably transparency and communication, with forward-looking forecasts, are monetary policy practices no longer unique to inflation targeting regimes.

[27] Aron and Mullbauer (2007a, p. 711) note that the 'SARB appeared to practise a stricter version of inflation targeting in the early years' (see also Kahn 2008, p. 144). They also note that the flexible approach allows them to 'stabilise the business cycle and hence the output gap'. The extent to which they focus on the latter is questionable.

[28] The target was initially specified in terms of the CPIX – defined as changes in the CPI for metropolitan and other urban areas excluding changes in mortgage interest rates – and is now specified in terms of CPI, which was revised to replace mortgage interest cost with imputed rent for owner-occupied housing (Rossouw and Padayachee 2011, pp. S53–S54).

[29] The SARB process of interest rate setting can be summarised as in line with Svensson's recommended 'moderate policy of flexible and forward-looking inflation targeting (*Svensson et al.*, 2002)' (Aron and Muellbauer 2007a, p. 711). Government officials acknowledge that the SARB has used interest rates 'almost exclusively' in its fight to control inflation (Hanival and Maia 2009, pp. 18, 21).

In practice both the target and tools employed have varied with place and time.

The framework used to support inflation targeting raises serious concerns. First, there is considerable debate over the extent of harm caused by moderate levels of inflation, and the extent of potential damage done by inflation-reducing policies. These topics are taken up later on, both theoretically and with reference to South Africa.

Second, inflation targeting is argued to be superior to other anti-inflationary monetary policy regimes on three counts: that it reduces inflation, that it enhances policy credibility, and that the costs in lost output or employment associated with contractionary monetary policy is lower. Whilst there is evidence that inflation targeting regimes have succeeded in reducing inflation even the most vociferous proponents of inflation targeting have failed to provide empirical or theoretical evidence supporting the other claims (even Ben Bernanke acknowledges this) (see: Epstein 2003, for a review of the literature).

Third, inflation targeting is usually associated with changes in the law that enhance central bank "independence" and this is seen to boost "accountability". This is both a smokescreen and a sham. "Independence" insulates central banks from democratic accountability and makes them more accountable to financial markets and those who operate them. Further, core capitalist states (for instance, the USA, UK and Japan) define their central banks independence in flexible terms, and when the interests of capital are under threat show little hesitation in violating this independence. This has been seen starkly in the bank rescues and quantitative easing programmes following the 2007/8 financial crisis, the latter amounting to the monetary financing of government spending and the provision of cheap financing to the financial sector on a grand scale.[30]

Central bank "independence" has been one purported means through which to "enhance credibility", another has been the emphasis placed on stabilising expectations, thus necessitating policy "transparency". Academics and central banks have argued that inflationary expectations can, particularly via negotiated wage increases, be self-fulfilling. On the other hand, adopting and rigorously pursuing inflation targeting, as well as promptly communicating any deviations from this to the markets, can quell inflationary expectations and thus inflation itself. As will be shown in the case of South Africa this supposedly intuitive mechanical link between inflation and expectations does not necessarily hold (see section 5.3).

Fourth, there is considerable debate as to what causes inflation. There is little evidence to support the monetarist dogma that inflation arises from excessive increases in the money supply[31] and the extent to which monetary policies are

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[30] Interestingly central bank independence seems to be fading for a variety of reasons (see for instance: Blejer 2013, cited in Strauss 2013).

[31] The monetarist mantra that the money supply determines inflation has been remarkably resilient despite there being no logical reason why the direction of causation should run from M (the money supply, or its rate of growth) to P (the price level, or inflation) in the equation $MV = PT$. This is true of both simple conceptualisations of the quantity theory of money and more

actually able to control the money supply is limited. Further, inflation will only follow from increased domestic demand under *given supply-side constraints*. This final point is crucial. As will be discussed below the logic behind interest rate hikes is that these will dampen domestic demand, as growth in domestic demand that outstrips (domestic) supply is argued to be inflationary. Reserve Bank policy proceeds on the basis of ignoring the possibility of simultaneously expanding the economy and maintaining moderate levels of inflation via expanding domestic supply. However, under certain conditions, wage increases, expansionary government spending and low interest rates can spur domestic investment and increase productivity, thus expanding supply. There is no reason why these measures are *necessarily* unduly inflationary. South African macroeconomic policy has consistently failed to spur the expansion of domestic investment, thus reinforcing supply-side constraints. Monetary policy has arguably constrained domestic investment.[32]

Finally, the remarkable reduction of monetary policy to price stability, to be achieved via interest rate manipulation, is implicitly premised on the false dichotomy drawn in orthodox macroeconomic theory (noted in section 1.2) between the financial and the real economies. This has meant that a blind eye has been turned to the relationship between monetary policy and the financial sector and the consequences for the latter of pursuing particular monetary policies (how facilitating financial market deregulation has been the real agenda underpinning monetary policy – more broadly conceived – is taken up in section 5.6). This has resulted in overlooking both the phenomenon of financialisation and the manner in which monetary policy has spurred this.

Most recently, in the developing world, high interest rates have been used to attract short-term, volatile portfolio inflows (see section 5.5 for a discussion on the consequences of this) whilst historically low interest rates in the capitalist core have pumped massive amounts of money into the financial system. Both phenomena are crucial drivers of financialisation and facilitate asset bubbles, consumer credit expansion and speculation at the expense of the real economy. The latter phenomenon also illustrates the fallacy of the mechanical link between the money supply, interest rates and inflation. Further, how such monetary policies relate to the operations, and fragilities, of the financial system, contributing to the massive increase in speculation and ultimately crises, are not tackled within the mainstream paradigm.

In the next sections we take up the question of the causes of inflation in South Africa, the channels of transmissions through which changes in the interest rate influences the economy, and whether the interest rate is an appropriate tool in tackling inflation.

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complex theories of inflation, for instance those found within the NCM and dealt with here in the case of South Africa.

[32] In practice, the determination of central bank's policy has tended to take place slightly removed from these academic debates and an uneasy tension exists between designating importance to the money supply and some recognition that the causes of inflation are multifarious, with wage increases inevitably targeted as a source of cost-induced inflation.

5.3 What Determines Inflation in South Africa?

The South African Reserve Bank argues that exogenous shocks – international oil price hikes, exchange rate depreciation, 'excessive' domestic wage increases, an increase in food prices etc. – could 'trigger' inflation but that only a continued increase in the money supply 'sustains' inflation. Hence, '[p]reventing excessive money supply growth is therefore a crucial element in combating inflation' (SARB 2012a). This latter (erroneous) proposition is the basic rationale behind using interest rates as the primary tool of monetary policy, despite the partial inability of interest rates to constrain the money supply (see below).

The mechanisms through which this operates (in the view of the SARB) is cogently summarised in a two-page box in the *Monetary Policy Review* (SARB 2004, pp. 23–25) from which Figure 5 is extracted.[33] An increase in the repo rate has four effects. First, it spurs an appreciation in the nominal exchange (due to increased demand for rands) directly altering prices via import prices, and indirectly impacting total demand via changes in import spending and export receipts (the trade balance). Second and third, it raises the cost of commercial bank loans, and puts downward pressure on bond, equity and real estate prices. These reduce bank lending, weaken companies' balance sheets, and have negative net wealth effects. Together with lowered expectations of the volume of business this reduces expenditure and investment and thus total demand, thereby containing inflation. Finally, expectations are altered, with higher interest rates seen to lead to lower inflationary expectations, thus checking inflationary wage increases.

The last mechanism is seen to be particularly important in containing second round effects of supply side shocks. These shocks – such as hikes in oil prices – might only logically lead to a one-time rise in the price level. However, the concern is that 'higher prices raise expectations of more inflation to come by businesses and trade unions with price and wage setting powers,' causing them to 'raise prices and wages in expectation of more inflation and by so doing, cause more inflation' (Kantor and Kavli 2011, pp. 1–2). The SARB is clearly concerned about these inflationary expectations – as they have repeatedly stated publicly – and institutes tight monetary policy to contain them almost irrespective of the nature of the original shock.[34]

This schema has significant weaknesses both empirically and theoretically. The most lauded fall in inflation took place in the 1990s (see Figure 7). However, this cannot be ascribed to the mechanisms above. Most patently, rather than acting as a brake on the growth in the money supply, extremely high interest rates (Figures 8 and 9) fuelled an increase in the money supply in part via short-term capital inflows destined almost entirely for the monetary sector that banks lent onwards at high domestic interest rates. This fuelled asset bubbles, speculative investment, consumption spending (the opposite effect to that hypothesised

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[33] The same diagram currently appears on the SARB website indicating that this remains the SARB's assessment of transmission mechanisms (SARB 2013).

[34] See Kantor and Kavli (2011, p. 2) for quotes from Governor Mboweni on second-round effects and expectations.

above), a rapid growth in imports, and a dramatic worsening of the current account, eventually leading to the 1996 currency crisis (for other consequences of these inflows see section 5.5 and 9.1).

Inflation was checked in large part due to the falling price of imported tradable goods and lower food prices. Even without an appreciating currency the price of tradable goods was declining due to trade liberalisation and cheap goods from Asia (Roberts 1997). More generally, Hanival and Maia (2009, p. 19) show the significant role of oil and food prices on inflation between 1990 and 2008, and Aron and Muellbauer (2007b) emphasise the importance of trade reform and growing openness in lowering inflation.

If high interest rates do not necessarily check the growth of the money supply might they not arrest inflation via the other channels? Recent scholarship suggests limitations here too. First, Kantor and Kavli (2011) have shown that realised inflation has only had a modest impact on inflationary expectations, but even more clearly the reverse does not hold at all – realised inflation has not been affected by inflationary expectations. This is because inflationary expectations in South Africa are, on the whole, backward-looking (as is wage setting). Using the interest rate to target these expectations, particularly in the case of second round effects, is unproductive (it essentially attempts to influence inflation rates that already occurred 2-3 years ago), extremely costly, and can lead to procyclical monetary policy (see: Frankel *et al.* 2006).

Second, Kantor (2011) has provided evidence to show that inflation in South Africa actually follows (rather than leads) the exchange rate, and is in fact dominated by it; with the exchange rate being 'dominated by degrees of global risk aversion' (Strauss 2013). The exchange rate pass-through effect has been shown to have strengthened since trade and capital account liberalisation (Aron *et al.* 2012).

There is considerable evidence that commodity prices and capital flows are the dominant determinants of the external value of the rand (Frankel 2007, Frankel and Sturzenegger 2008, OECD 2013).[35] The former is shaped by mineral prices, and the latter impacted by emerging market developments, the patterns and nature of foreign investment, global shifts in liquidity and risk aversion, and domestic interest rates, although the role of domestic interest rates is contested. Frankel (2007) shows that the rate of return, via the real interest differential (that is, the extent to which the interest rate in South Africa is higher than another country, in this case the US dollar), shows a highly significant impact on the rand from which we infer that higher interest rates lead to real rand appreciation (see also Samson *et al.* 2003) (holding all other things equal). However, as Kantor and Holdsworth (2009) argue, if higher interest rates depress domestic demand and growth, that is further depress domestic supply, then this could lead to a weaker rand (and more inflation). Given these factors

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[35] Per capita income appears not to be a significant determining variable on the value of the rand (Frankel 2007).

the rand has been extremely volatile, although reserve accumulation has had some stabilising impact.

The external balances – both the value of the rand and current account balance – were essentially sacrificed on the alter of domestic price stability.[36] The consequences – both in terms of successive and brutal currency market crises, with the rand losing 15 to 30 percent of its value eight times between 1994 and 2014 (see Figure 6), and a large current account deficit – came home to roost. In a small open commodity producing economy the exchange rate is arguably the most important price level, as Cassim (2006, p. 77) notes, it 'is hard to reap the benefits of openness if we cannot maintain a competitive exchange rate'. The government is clearly once burnt, twice shy, but has come under increasing criticism for its failure to deal with currency overvaluation and volatility.

This exclusive focus on using interest rates to target inflation ignores the role of supply-side factors. Expansion in domestic demand only has the potential to stimulate inflationary pressure when supply and/or productivity is not simultaneously increased. High interest rates can stymie the investment needed to bolster production and thus cause supply-side bottlenecks that can exacerbate inflation; potential short-term inflationary gains from high interest rates can lead to longer-term inflationary pain (Michie 2006, p. 96). This said, it must be remembered that the levels of investment are impacted by a range of factors and not just interest rates which merely reflects the most immediate cost of capital. High interest rates also attract capital inflows, which have fuelled household debt and consumer spending, thus lowering savings (Aron and Muellbauer 2007a, p. 738), and spurred asset price inflation, including the world's largest real estate bubble (The Economist 2009). The very policy intervention – raising interest rates – prioritised by the SARB can have the perverse effect of stimulating inflation.

None of this is to suggest that high (or rising) interest rates cannot dampen domestic investment and reduce output. This has certainly occurred through channels identified by the SARB – asset price channels, increased costs of lending, and a strong currency – and perhaps through other channels, such as the cost channel whereby higher interest rates increase the cost of capital for firms and households who may try to pass these costs on (Aron and Muellbauer 2007a, p. 712). However, just because constraining domestic investment, output, and (to a certain extent) demand might curtail inflation, it does not follow that excessive investment, or an increase in the money supply, is *causing* inflation, nor that this is the most effective and least costly policy intervention. Rather, it illustrates a misapprehension of the underlying dynamics of the economy on the part of policymakers.

We should look for the causes of inflation (and deflation) in both exogenous factors (for example, the cost of tradable goods), exchange rate dynamics, and domestic supply conditions. Indeed, a new emphasis on managing the exchange

[36] Compared to other emerging markets South African monetary policy has put a 'very low weight on the exchange rate' (Kahn 2008, p. 145).

rate and lifting supply-side constraints has been taken up in more recent policy prescriptions (see sections seven through nine). This also highlights the bluntness of the interest rate as a policy tool and calls for closer attention to the specificities of the South African economy, including at a sectoral level. Tackling monopoly pricing, price regulation, industrial policy aimed at increasing productive capacity, targeted policies aimed at slowing down particular inflationary sectors or protecting others, targeted interest rates, financial market reform, and maintaining a competitive exchange rate all have a role to play in containing inflation. Demand-pull inflation only results from increased demand if *present supply conditions* are left unaltered. Essentially, the logic of the Reserve Bank needs to be reversed; the expansion of the economy needs to be given priority and if aspects of this are inflationary then the channels through which this is occurring need to be tackled directly.

5.4 Consequences of Inflation

How harmful is inflation? The orthodoxy offers a large body of economic theory that argues high levels of uncertainty – on the basis of high and/or volatile inflation – disrupts the market, as stable expectations are not possible, and thus impedes investment, and provides substantial empirical evidence of a link between inflation volatility and growth (Aron and Muellbauer 2007a, p. 714). Some of this is contested but even if we accept it, the harmful affects of moderate, but stable, inflation remains unproven.

In one study Epstein takes data from 37 “upper middle income” countries (the category into which South Africa falls) for the years between 1980 and 1997. He found that for rates of inflation under 20 percent there was ‘no clear impact on most real economic variables such as economic growth, investment, inflows of foreign direct investment and similar variables’ (2003, p. 13), although negative impacts were present for inflation over 20 percent (the impact on export competitiveness depending on the exchange rate regime). A further econometric analysis of 70 countries yielded similar findings.[37]

Contrary to this, IMF research on emerging markets has shown that there are growth benefits to reducing inflation from hyperinflation levels to around 8 percent. However, as South African economist Nick Barnardt noted, ‘trying to crush [inflation] below 8 per cent yielded very little reward in relation to the pain such an exercise could involve’. Comparative data on growth and inflation indicates that a range of countries with moderate inflation (between 8 and 12 percent) have shown stronger growth than those with low inflation (under 4 percent). The case for a 3 to 6 percent target range is, at best, thin and prioritising this over other economic goals completely misguided. South Africa does not have a history of hyperinflation, and inflation was already falling to manageable levels in the early 1990s before the ANC came to power. Stabilising inflation has merit, slashing it to below 6 percent was unnecessary; as Barnardt argued, on the eve of the institution of inflation targeting, ‘[i]t takes only a quick

[37] It is also argued that moderate inflation may facilitate adjustments in relative prices, particularly in economies undergoing structural change (Roberts 1997, p. 58).

glance at our situation to see that accelerating growth and job creation are much more important in the next five years than getting inflation down to 4 per cent or 5 per cent' (quoted in Padayachee *et al.* 2000, p. 1361).[38]

This point can be further nuanced by emphasising that the toolkit employed is crucial. If inflation is reduced to between 3 and 6 percent by successfully expanding the economy and increasing domestic supply then the trade-off between low inflation and high growth may not arise. The choice of interest rates as the key policy lever has precluded such a possibility.

5.5 Consequences of Inflation Targeting

We might ask then whether inflation targeting damages growth and undermines employment. In South Africa, with interest rates serving as the key (if not only) policy instrument, the question might be repackaged as to whether high interest rates have hurt the economy. On a theoretical level the orthodoxy would answer in the negative as neo-classical theory argues that in the long run full employment prevails, and monetary policy can only affect nominal variables, such as the price level or inflation, and not real variables such as employment or investment. This is premised on the veracity of the classical dichotomy for the long run, which implies that real outcomes cannot be affected for long. This is simply a theoretical convenience, yet practical millstone on both realism and policymaking.

Empirically, even the proponents of inflation targeting have acceded that excessively high real interest rates in the 1990s hurt growth (Aron and Muellbauer 2007a, p. 725). In 1998 Chris Stals, then Governor of the Reserve Bank, conceded:

> 'Nobody will deny it that South Africa has extremely high interest rates at this stage … Nobody will deny it that the high level of interest rates is bad for the South African economy, particularly at the current stage of the business cycle and a rather depressed domestic economic situation ... the high interest rates will most probably reduce consumption financed with borrowed funds, and also investment in fixed capital, equipment and inventories. The future production capacity of the economy is therefore constrained by the present adverse financial conditions. In terms of domestic needs, South Africa now requires a stimulation of the economy, and would prefer lower interest rates to encourage economic development.' (Stals 1998)

However, proponents maintain that this was not the case in the 2000s under the inflation targeting regime, which they argue is consistent with high growth rates (Aron and Muellbauer 2007a, Kahn 2008). Contrary to this, South Africa has seen mediocre growth and the "boom" of the early and mid-2000s was driven by

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[38] What is peculiar is that there was little pressure at the time coming from foreign investors, or global credit rating agencies, to reduce inflation to such low levels (Padayachee *et al.* 2000, p. 1361).

unsustainable consumption spending (see section six). Rather, comparatively high real interest rates have been an important facet in the financialisation of the economy, with delirious effects on the real economy.

South African real interest rates are shown in Figure 8, and a comparison with a sample set of twelve other countries is given in Figure 9. It should be noted that lower interest rates in the 2000s did not necessarily lower the interest differential as rates fell elsewhere (Aron and Muellbauer 2007a, p. 728). Further, in South Africa interest rate spreads for banks have increased, which bucks the global trend (Samson and Bayat 1999, pp. 4–5, see Beck *et al.* 2010 for comparative statistics).

In general high interest rates can both impede and distort lending and investment, which has negative ripple effects on employment and national income. Epstein (2003, p. 12) notes: 'Walsh (1998) cites estimates which suggest that an increase in inflation in the U.S. from 3% to 10% would cost about 1.3% of GDP whereas the lost output associated with reducing inflation from 10% to 3% was calculated at about 16% of GDP'. Samson (1996, cited in Samson and Bayat 1999) estimates that between 1989 and 1996 disinflation cost South Africa 40 percent of a year's national income. In recent years there have been increasing calls from the business and financial sectors to maintain lower interest rates in order to stimulate growth (Biz-Community 2012).

In the presence of imperfect markets, high interest rates can skew business investment and lending patterns. This occurs due to market failures caused by adverse selection and credit rationing. In South Africa this has entrenched patterns of lending that favour large established business and disadvantage small and medium enterprises and new black businesses, and has directed funds towards short-term and consumer lending (Roberts 1997, pp. 66–68). High interest rates also impact the nature of foreign capital inflows as short-term speculative inflows are particularly attracted to high yield financial markets, whereas sustainable FDI inflows are premised on a range of factors (see Figure 10).

These large volumes of short-term portfolio inflows have heightened speculation, led to stock market and real estate bubbles as well as the accumulation of large financial surpluses by financial and non-financial corporations and played a determining role in the appreciation of the currency (with their reversal sometimes leading to dramatic currency depreciations and crises). These portfolio inflows have mainly accrued to financial institutions with large portions passed on as consumer debt. They have been necessary in part to compensate for significant capital flight, both legal and illegal, that was a feature of the late apartheid years that continued, and even accelerated even, under the democratic dispensation (see sections six and 9.1). High interest rates can have a particularly perverse effect on households as corporations can deduct interest on debt from taxable profits but households cannot deduct such interest from taxable income (Ajam and Aron 2009, p. 12). Finally, high interest rates increase the government's debt repayments, drain fiscal resources, and deter new borrowing.

Proponents of tight monetary policy also argue that positive real interest rates prevent borrowing for unproductive purposes and assist in mobilising savings. There is little evidence to support this and South Africa's saving rate (particularly personal savings) has declined despite high real interest rates. Corporate savings have increased but these are not being used to finance investment. The stability of interests rates has been shown to be a much stronger determinant of savings (Roberts 1997, p. 57). In sum:

> 'Instead of higher interest rates reducing inflation while increasing savings and investment, they may reduce investment, inhibit industrial development, entrench short-termism and risk averse behaviour by financial institutions, as well as redistributing wealth from net debtors to net creditors (thereby increasing inequality).' (Roberts 1997, p. 60)

In all these ways, high interest rates and the dynamics of capital flows these create have been instrumental in the financialisation of the South African economy.

5.6 Conclusion: The Agenda Behind Inflation Targeting

Given the inefficiency of interest rates as an inflation-combating tool and the harmful consequences of tackling inflation via these means, the decisions to prioritise inflation as the central objective of monetary policy and interest rates as the primary tool, must be correctly apprehended within the broader context of restructuring. The true priority of the South African government's monetary policies, more broadly conceived, was the liberalisation, expansion and promotion of financial markets. Important to the financialisation of the economy is low and stable inflation, access to credit, and asset price inflation. In core capitalist countries the latter two are served best by low interest rates, whereas in South Africa high interest rates have been necessary to support capital inflows and asset bubbles. Important to the restructuring of big capital in South Africa (represented by the former conglomerates) was the ability to diversify abroad and remove capital from the economy. High interest rates maintained a steady stream of capital inflows to compensate for huge capital flight (see sections six and 9.1). The associated dogma of central bank "independence" allows for the insulation of monetary policy from democratic control and the binding nature of inflation targeting, as its defenders glowingly note, deters policies with inflationary consequences such as progressive labour legislation (Aron and Muellbauer 2007a, p. 736); it is a gun to the head of labour.

In all these ways inflation targeting supported the dominant sections of capital and the restructuring of the economy that occurred to their benefit. This can be the only explanation for its persistence despite its failing on its own terms (for example to stem the growth in the money supply in the 1990s), bringing instability via supporting short-term capital flow volatility, and contributing to poor levels of growth. However, it does not bear full responsibility and a range of other policies (or their neglect) have shaped macroeconomic policy and performance in the 2000s.

6 MACROECONOMIC PERFORMANCE

Economic performance in the first decade of democracy can be described, at best, as mediocre. The lauded achievements were the reduction of the budget deficit from 9.5 percent of GDP in 1993 to just over 1% in 2002/3, with public sector debt falling from over 60 percent to around 50 percent over the same time period, and the containment of inflation to 5.5 percent in 2003 (see Figures 3, 4 and 7). However, GDP growth was just 2.8 percent per annum and GDP growth per capita only slightly above 1 percent (see Figure 1). Capital inflows had occurred but short-term portfolio flows were the strongest element and domestic savings had declined. Contrary to intentions gross fixed capital investment averaged just 16 to 17 percent over the decade, down from its historic high of 27 percent (see Figure 2), and real unemployment had climbed to just shy of 35 percent by 2004 (see Figure 11). In this decade manufacturing's share of gross value added fell by 4 percentage points compared with the average between 1980 and 1993, whilst finance's share rose by 4 percent (Presidency 2003, SARB 2012b) (see Tables 4 and 5).[39]

The Government defended itself in a variety of ways. It continued to exorcise early commitments to redistribution; for instance, there is no mention of it in the Presidency's (2003) *Towards a Ten Year Review*, and a tendency developed to evaluate GEAR in the absence of its own objectives. It was cast a "success" because it achieved macroeconomic stability despite failing to meet most of its quantitative targets, and none of those pertaining to investment, employment and growth. "External factors" – contagion from the East Asian crisis, exchange rate instability, etc – were consistently given as reasons for these failings. This included fingering exchange rate instability and appreciation (after 2001) as hampering manufacturing performance (Hanival and Maia 2009, p. 8).

When these excuses seemed insufficient, the media was blamed for portraying 'the South African story as a confusing drama, rather than a saga of steady improvement' and thus misleading would-be foreign investors (Presidency 2003)! Even when a broader set of factors is acknowledged for low levels of private sector investments – 'general concerns about the direction of government policy (more an expression of mistrust than reality), mediocre growth expectations, perceived costs of crime, elements of labour legislation and high interest rates… access to capital [for small firms]' – there are both glaring omissions (capital flight, failure of the financial sector etc.) and little substantive analytical inquiry into why these factors may have arisen. When all this failed to impress, the government gerrymandered the statistics – for example by altering how the Gini coefficient is calculated (Bond 2006, pp. 64–65).

The economy did experience a boom in GDP growth between 2004 and 2007 of, on average, over 5 percent, however this was driven by consumer spending and the financial sector, and did not include an expansion of domestic supply in many

[39] The restructuring which occurred during this period has already been covered in section two.

domestic consumer industries (see sections six and 9.1). Between 2009 and 2012 growth fell to an average of 2 percent and only 0.5 percent in per capita terms. Gross net capital investment, driven by construction expenditure, grew consistently between 2002 and 2009, and remains higher than in the first decade (see Figure 2), but real unemployment which fell over the mid- and late 2000s is now back near 35 percent (see Figure 11).

These trends were exacerbated, indeed partially caused, by massive capital flight, both via legal means, including the relisting on overseas stock markets and dividend outflows (as discussed in section two), and illegal means, as with transfer pricing. Capital flight has been estimated at averages of 9.2 percent of GDP between 1994 and 2000 and 12 percent of GDP between 2001 and 2007, peaking at 23 percent in 2007 (see Mohamed and Finnoff 2004, Boyce and Ndikumana 2008, Mohamed 2008, Ashman *et al.* 2011a, and see Strauss 2012 for a critique of the methodology employed). There can be little doubt that this has been a significant contributing factor to the low levels of investment and has been systematically ignored by policy makers. Receiving greater acknowledgement has been the vast sums of cash reserves held by South African corporations, with the non-household private sector sitting on 700bn rand of liquid deposits at the end of 2011 (SARB 2011); less acknowledged is how these liquid assets are used in financial market speculation (see Karwowski 2012 on over-capitalisation of SA firms, and 2014 on the use of cash reserves in speculative activities by mining corporations). These phenomena – capital flight and the holding of liquid assets and their speculative used – are characteristic of the financialisation of the South African economy.

Clearly the macroeconomic policies of the first decade of democracy and beyond have not yielded the growth, investment, employment and development that was needed to raise the living standards of the poor majority.

7 2000s: MICROECONOMIC REFORMS AND GOVERNMENT INVESTMENT

The second half of the first decade of democracy saw two important shifts in government rhetoric, and to a certain extent policy in practice. These did not reject the policy framework laid out thus far, but tempered and supplemented it. To an extent they reinserted aspects of RDP policy albeit in a watered-down form, that had been culled, and mirrored international trends in policy theorising and making (see below).

The first was a new focus on microeconomic reforms. In his 2001 budget speech Minister of Finance Trevor Manuel stated: 'this budget heralds the beginning of a new cycle. It sets out a growth-orientated agenda of improved spending, significant increases in infrastructure allocations and ongoing tax reform, within the sound framework of fiscal management established over the last five years. *It signals a shift form macroeconomic stabilisation to microeconomic reform.*' (Manuel 2001, emphasis added). Also in 2001 President Mbeki announced the Micro Economic Reform Strategy. This focused on issues such as technology, human resource development, small business development, black economic empowerment, access to finance, and infrastructural investment (Knight 2004, p. 6, Streak 2004, p. 283). The stated aims were to generate greater job-creating investment, more effective service delivery and (allegedly) ultimately social equity. Priority sectors included: clothing and textiles; automotives and transport; mining, metals and minerals; chemicals; tourism, agriculture, information and communication technology; services; and aerospace.

The Micro Economic Reform Strategy served as the basis for the 2002 Integrated Manufacturing Strategy, which argued that 'an integrated and advanced manufacturing sector in South Africa can be leveraged to generate higher levels of economic growth, employment creation, and the reduction of economic inequalities throughout the entire economy' (DTI 2003, para. 1.3).The analysis which underpinned this new emphasis on microeconomic policy was that the South African economy was hampered by a slew of "microeconomic blockages" that 'prevented the economy from growing faster and creating jobs' (Naidoo 2006, p. 115). These included: a poor skills base and weak educational institutions, retarding spatial development patterns, a poor transportation system, poorly regulated monopoly markets, labour markets that did not clear, high levels of poverty, low productivity, low levels of efficiency, and high levels of crime (Naidoo 2006, p. 115, Naidoo *et al.* 2008, pp. 19–20). Many of these were to reappear in the future, for instance in AsgiSA as "binding constraints" (discussed later). Significantly, then Treasury official, Kuben Naidoo argued for a prioritisation of education and training, and labour market reform (Naidoo 2006).[40]

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[40] Kuben Naidoo worked at the National Treasury for 12 years between 1998 and 2010, eventually heading up the Budget Office, and played an instrumental role in macroeconomic policymaking. He became head of the Secretariat of the National Planning Commission which

Theoretically, this is a belated adoption of the "market imperfections" approach that has become both more prominent and convenient under the post Washington Consensus and during the second phase of neo-liberalism in rationalising discretionary micro-level interventions. The required interventions are seen as *market correcting* not market steering. This is also in line with "post-Washington Consensus" thinking, which emphasises an *orderly management* of Washington Consensus dictates (this was discussed in section 1.2). Crucially, this shift towards microeconomic reforms, whilst containing some important recognition of weaknesses in the South African economy, *allowed macroeconomic policy to remain unchanged*. This is validated on the basis of the false dichotomy between micro and macro, whereas the two are very much related. Further, if "macroeconomic stability" had been achieved, and macroeconomic policy was to remain conservative, then it was necessary to find other reasons for the ailing economy; a focus on microeconomic supply-side constraints was congruent with NCM thinking.

Alongside this agenda we see the second shift in focus towards greater emphasis on government investment. In a rhetorical and theoretical U-turn, government officials, including the architects of GEAR, started to speak of the need for a strong state and the capacity for government spending to "crowd-in" private investment. On the former, the Presidency's *Towards a Ten Year Review* states that 'the State needs to be sufficiently strong to commit to encompassing long-term developmental objectives, in other words, for the State to assert its leadership role beyond the realm of areas under its direct control' (Presidency 2003, p. 103).[41] On the latter, Treasury officials are now happy to cite the theoretical and empirical evidence for the growth-enhancing effects of increased investment in infrastructure (see for example Faulkner and Leowald 2008, p. 13, Naidoo *et al.* 2008, p. 25). Some of this would be via public works programmes that would directly expand employment, another about-face from Manuel's 2000 comment that 'governments around the world are impotent when it comes to creating jobs' (quoted in Bond 2006, p. 66). Even so, the implementation of public works programmes has generally been lacklustre. In his 2004 budget speech Manuel expressed the aim of increasing government investment as a share of GDP from 16 to 25 percent (Manuel 2004) predominantly through infrastructural investment. In practice, until 2006, only a modest increase in such investment took place, in part because of poor government capacity, arguably itself the result of a decade of neglect.[42]

A focus on microeconomic reform and public investment were integral to the outcome of the 2003 Growth and Development Summit, which also displayed a renewed interest in government–business–labour cooperation (Government of

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drafted the neoliberal National Development Plan (see section nine). In April 2013 he was appointed as an advisor to the Governor of the South African Reserve Bank.

[41] Interestingly, the Report goes on to acknowledge that apart from the RDP no such 'encompassing framework or broad vision' exists (Presidency 2003, p. 103).

[42] Interestingly certain government investment is not classified in national accounts as contributing to gross capital formation, for example, the housing programme, and electricity and water connections, are scored as transfers to households (Naidoo *et al.* 2008, p. 27).

the Republic of South Africa 2003).[43] Such concerns were also reflected later on in the 2004 Expanded Public Works Programme (EPWP), the 2006 Joint Initiative for Priority Skills Acquisition (JIPSA), and the continent-wide New Partnership for Africa's Development (NEPAD) (Hanival and Maia 2009, pp. 5–6).

A rhetoric arose around these programmes, which emphasised increasing 'social inclusion' and 'sustained, accelerated and inclusive growth'. However, this was also accompanied by conservative "blame the victim" babble. For instance, the *Medium Term Strategic Framework 2004–2009* emphasises that it is vital to ensure that an 'honest day's work and upright citizenship become the attractive lifestyle for communities' (Presidency 2004, p. 15). This was later picked up again in the National Development plan (see section nine).

This reform agenda is distinguished from the prevailing programme in a number of ways. First, it gave greater legitimacy to government investment in both stimulating private investment and in directly tackling (the now recognised) high degree of structural unemployment through public works programmes and other incentives and intervention. Second, it included a (faltering) revival of interventionist industrial policy focused on diversification and growing sectors not traditionally linked to the MEC. Third, there was some movement away from an obsessive reliance on FDI and a greater emphasis on mobilising domestic savings (see for instance: Government of the Republic of South Africa 2003, para. 3.1).

This said, in crucial ways this agenda did not break with existing policy approaches. It was still a "growth first" paradigm in which private sector expansion (albeit stimulated by public sector investment) would spur greater employment and therefore a reduction in poverty; standard neoliberal fare adapted for the South African context. As noted, the (dubious but widely accepted) theoretical distinction between the micro and macro economic spheres allowed for a more interventionist micro policy whilst leaving the macro environment unchanged. State spending for instance rose on the back of increased tax receipts with Government in 2007 proudly running the first fiscal surplus in 50 years. General government expenditure per capita remained very low by global standards (Lysenko and Barnard 2011, p. 24).

The industrial policy deployed was premised on a productivity enhancing supply-side framework whose efficacy was limited (Cassim 2006, pp. 67–71). Sectoral analysis reveals a substantial path dependency in industrial development with capital-intensive, resource-based, and heavy manufacturing industries, with high levels of concentration and weak competition, remaining the strongest performers while non-traditional manufactured exports and labour-intensive sectors have performed relatively poorly (Black and Roberts 2009). This clearly represents a perpetuation of the MEC. The exceptions, most notably in automotive products, are the spheres in which industrial policy has been more interventionist, as with the Motor Industry Development Programme

[43] Other important aspects of the reform agenda during this period were strengthening the competition regime, further trade liberalisation and tax reform.

(MIDP).[44] Finally, whilst these reforms were accompanied by a renewed emphasis on social welfare and poverty, the major emphasis was on public investment in improving the business environment (see, for instance: Presidency 2004).

In all these respects the shift towards an emphasis on microeconomic reforms and increased government investment did not represent a reorientation of the economy. Rather, the growth path described above, and the nature of the restructuring which was taking place, were not disturbed by these initiatives, and in some cases, were reinforced by them.

7.1 The Accelerated and Shared Growth Initiative for South Africa (AsgiSA)

Microeconomic reform and increased government investment formed cornerstones of the 2006 Accelerated and Shared Growth Initiative for South Africa (AsgiSA). These were complemented by: concerns over the growing current account deficit; that growth had been driven by strong commodity prices and consumer demand, facilitated via capital inflows, resulting in an overvalued exchange rate; and the exclusion of approximately a third of South African households from enjoying the benefits of previous economic growth. The notion of 'binding constraints' (in place of 'microeconomic blockages') was deployed in order to explain what had hampered the South African economy. AsgiSA listed six such key constraints: the volatility and level of the currency; the cost, efficiency and capacity of the national logistics system; shortages of suitably skilled labour, amplified by the impact of apartheid spatial patterns on the cost of labour; barriers to entry, limits to competition and limited new investment opportunities; the regulatory environment and the burden on small and medium businesses; and deficiencies in state organisation, capacity and leadership.

Priority was given to ramping up public sector investment, seen as having potential positive 'spin-offs,' a far milder version of the infrastructural investment plan envisaged in the RDP to 'kick-start' the economy. A detailed breakdown was not given but it appears that *newly allocated* funds were to be directed towards business service infrastructure – reducing 'the costs of doing business' – and in general there was an absence of social policy and a neglect of basic service provision. Sector-specific industrial policy was endorsed, and support given for the (then forthcoming) National Industrial Policy Framework. The latter was narrow in focus with insufficient attention to manufacturing; of the three sectors due to receive 'special priority attention' two were service sector related, and not low-skilled (business process outsourcing and tourism). In general, it was far from clear how AsgiSA would be able to generate mass low-skilled employment.

The shortest section (a third of a page out of sixteen!) is that dealing with 'macro-economic issues' (Presidency 2006, pp. 14–15). The section opens with a

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[44] The interventions in the automobile sector have their own severe shortcomings (see Masondo, 2013, get bibliography reference).

need to ‘find strategies to reduce the volatility and overvaluation of the currency’ indicating a new priority, but gives no details on what these strategies might be. There is also absolutely no particulars on how to ‘ensure within an inflation targeting regime fiscal and monetary policy work together to produce sustained and shared growth’ (the next two paragraphs then deal with budget management by government). One can only assume that this paucity of substance is cover for business as usual. The AsgiSA strategy is clearly a “growth first” policy package, with the attendant difficulties discussed above repackaged in new language. Labour flexibility which is emphasised is taken up in section 9.6.

8 PROGRESSIVE DEVELOPMENTS? THE NGP AND THE 'DEVELOPMENTAL STATE'

Despite the ANC's assertion, in 2006, that '[t]he victory of the democratic revolution has enabled us radically to alter the conditions affecting capitalist accumulation', the unusually trenchant critique by the SACP that 'the key features' of 'the persisting capitalist accumulation path (in our country) … remain those set in place over the past century,' is a more fitting description of the South African economy at the end of the first decade and half of democracy (quoted in Bond 2006, p. 61).

As noted the economy did see improved growth between 2004 and 2007. However, this hit up against internal limitations (the concentration of the economy around capital-intensive, monopolistic industries; the dysfunctions of the financial sector; the poor state of manufacturing, etc. – in short, the continuation of the MEC), and the subsequent downturn was exacerbated by the 2007-9 financial crisis and ongoing global instability and poor growth in the capitalist core. The government continued to emphasise the successful achievement and maintenance of "macroeconomic stability," but also admitted to a variety of systemic weaknesses (Faulkner and Leowald 2008, see also: Naidoo *et al.* 2008, pp. 32–37, Presidency 2008, pp. 28–30, Economic Development Department 2010, pp. 4–6).

At this time, two progressive changes appeared to be afoot. One was the entrance of the "developmental state" into ANC and Government rhetoric and policy documents, and the other was the promulgation of the *New Growth Path* (NGP).

The 2007 ANC National Conference documents (those prepared for the conference and the actual resolutions) are brimming with references to the developmental state (ANC 2007, 2008). The rhetoric of these documents is fairly radical with emphasis on a strong, well-equipped state that takes an active role in directing the economy, through direct economic intervention (such as via developmental financing), according to a previously ordained growth path with priority given to industrialisation and developmental goals targeted at the poor majority. This overlaps with much of the seminal literature of the nature of the developmental state, which (glossing over important differences) emphasises the political legitimacy and capacity of the state, the developmental agenda it pursues, and the means through which it achieves these ends (see: Jahed and Kimathi 2008, Turok 2008, Fine 2010b).

The "developmental state" which we find in government policy documents is decidedly different. It has been reduced to a strong, capacitated state that is capable of implementing government policy. The *purpose* of that policy is "development" but "development" defined narrowly by macroeconomic stability and a shallow conceptualisation of economic growth. The *strategy* to achieve this is regulatory, hoping that, with some cajoling, private capital will deliver, and it does not forcefully shape the development trajectory of the economy in any meaningful sense.

In practice, where the Government has been more direct in its interventions, it has often *reinforced the existing growth path*, for example through state-backed funding for capital-intensive MEC related projects, or focused on deracialising ownership. All in all, except in a rhetorical sense, the ANC Government has shown little interest in transforming itself into a developmental state or, indeed, in identifying what this is and has been, and how it might be achieved. This is another illustration of the affirmation of the neoliberal state in the sphere of economic policy.[45] Once again, these interventions have reaffirmed the transformations described and not reoriented the economy towards an alternative "pro-poor" growth path.

This said, neither the ANC nor Government should be seen as homogenous and monolithic as there has been considerable contestation within both, even if the outcome of these contestations has more often than not sidelined or minimised progressive policies. The Department of Trade and Industry, for instance, has advanced interventionist policies to promote diversification. Such policies are found in the various iterations of the Industrial Policy Action Plans (IPAP 2007, IPAP2, 2010, IPAP3, 2013). However, the influence of these plans on overarching macroeconomic policy has been minimal, and they continue to push against the dominant conservative grain in policy-making led by National Treasury.

The promulgation of *The New Growth Path* (NGP) in 2010 is another such initiative which tacitly acknowledged the need to break from the "old growth path" (Economic Development Department 2010). This said, it is not entirely clear 'how the old is conceived and how the new breaks with it both in trajectory and driving force' (Fine 2012, p. 1). The political space for this alleged reorientation was opened by the election of Jacob Zuma to head the ANC, and the country, and his strong backing within the labour movement and SACP. That former trade unionist Ebrahim Patel's Department of Economic Development prepared the Plan is no coincidence.

The NGP was the most interventionist and progressive of the policy packages adopted by the ANC government since the abandonment of the RDP. Not coincidently, when the NGP references earlier policies it ignores GEAR (see Economic Development Department 2010, p. 6). The NGP attempted to forge an integrated programme, bringing together macro and micro policy, and giving life to industrial policy whilst integrating it with and within other sectors. It made employment, and the creation of low-skilled "decent" jobs (see p. 3 for a definition), the centrepiece, together with a focus on poverty, labour absorption,

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[45] The massive expansion of social welfare in post-apartheid South Africa should be noted. Correctly apprehended, it is a double-edged sword. On the one hand, it represents a progressive victory for labour and has positively changed the lives of millions of South Africans. On the other hand, it has served to cushion the worst effects of neoliberal economic policies and thus sustain them. Such social welfare policies are therefore not a violation of neoliberalism but constitute the form that neoliberalism (a phenomenon marked by its heterogeneous manifestations) has taken in South Africa (and other parts of the developing world).

a social wage, and a greener economy.[46] The main indicators of success included 'jobs (the number and quality of jobs created), growth (the rate, labour intensity and composition of economic growth), equity (lower income inequality and poverty) and environmental outcomes' (Economic Development Department 2010, p. 6). This was a significant departure from a narrow focus on rates of economic growth.

The NGP identified five job drivers: infrastructural investment; stimulating the key sectors of agriculture, mining, manufacturing (as per the Industrial Policy Action Plan 2), tourism and certain high-level services; investing in new economies, specifically the green economy and ICT; investing in social capital and public services; and spatial development. It put forward a comprehensive programme of ten microeconomic packages including: active industrial, rural development, competition, labour, technology and trade policies; educational and skills development; broad-based black economic empowerment (BBBEE); and policies for "African development". It highlighted the need to 'redirect savings and investment toward productive and infrastructure projects in support of employment and sustained growth'. It goes on to note that this 'depends on efforts to discourage unnecessary consumption and to encourage savings, and direct resources towards developmental aims' (Economic Development Department 2010, p. 27). To achieve its implementation it stressed the need for cooperation between business, organised labour, civil society, and the state, the last of which was cast as defining a developmental state.

Despite protestations to the contrary, the more progressive aspects of the NGP have been undermined and the majority of its content disregarded by the more recently adopted *National Development Plan* (NDP) (National Planning Commission 2011) (see section nine). The 'decent jobs' agenda is still employed rhetorically but even as the ANC embraced the NGP its Secretary General referred to the 'debate of whether these jobs will be decent' as 'sterile' and 'a distraction from the reality facing our country,' stressing instead the need to ensure 'that as many South Africans as possible get employed'.

Despite its advances, critical facets of the NGP – macroeconomic policy, labour reform, the language of "trade-offs," the weak conceptualisation of the "developmental state" – and what it ignores – capital flight, reasons for past policy failures, the political economy of the South African economy – place it within what is termed here "the current conservative consensus," and will be dealt with below.

[46] The promotion of "decent work" is also present in the 2007 ANC Policy Conference Resolutions (ANC 2007).

9 THE CURRENT CONSERVATIVE CONSENSUS

The Zuma administration has been remarkably adept at mouthing radical rhetoric whilst maintaining conservative policy. Despite its avowal that the 'second phase of the transition should be characterised by more radical policies and decisive action to effect thorough-going socio-economic and continued democratic transformation,' (ANC 2012, p. 3) such a "radical shift" has not been forthcoming.[47] Nowhere is "business as usual" more present then in macroeconomic policy.

Key facets of the current conservative consensus have been carried over from previous economic policy, whilst the precise constellation of current policies has been moulded by more recent economic trends. The outlines of the policy package emerged, and received ideological cover, in the recommendations of the Harvard Panel of pre-eminent international (mainly US) scholars with a smattering of South Africans. The Panel was tasked by Treasury to provide a response to AsgiSA and suggest policy prescriptions. Close variants of these recommendations reappear in the *New Growth Path,* SARB publications, and the *National Development Plan*, although the latter is a contradictory and confused embarrassment (see below).[48] These policy dictates have received support from other quarters, such as the two most recent OECD *Economic Surveys* of South Africa (OECD 2010, 2013), and many have found their way into government budgets and expenditure plans, and have thus been enacted in practice. This (re)convergence in policy thinking and making, after a brief somewhat progressive detour and contestation (as described above), underpins the moniker of the "current conservative consensus".

9.1 Diagnostics

The policies are underpinned by recent developments in the South African economy and supported by (more or less) reference to neo-classical scholarship, with considerable weaknesses. These are delved into in turn.

It has been argued that the strengthening of growth in the mid-2000s (2004–2008) was unsustainable. Essentially the economy was "overheating," with potential output growing at a lower rate than GDP growth and the boom fuelled by spending on consumer durables and investment in the non-tradable sector, such as real estate, finance and services. This led to an increased current account deficit (as domestic spending was financed by foreign borrowing), surging

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[47] The recommendations from the ANC 4th Annual Policy Conference in June 2012 speaks of a radical shift/transformation/break in eight places.

[48] The NDP is even less reconstructive than other proponents of the conservative consensus by downplaying the need to stabilise the exchange rate and relax monetary policy, and dismissing the role of state-led investment and industrial policy. It is a regression from earlier policies. At the same time it is relevant to question whether the NDP actually represents policy in practice or whether it is a rhetorical exercise that marginalises more progressive programmes and gives cover to existing policies, or those in the pipeline, such as labour market deregulation.

consumption, inflationary pressure, and a real estate bubble. The Harvard team also linked overheating to a skills shortage, and an overloaded electric power grid and transportation infrastructure.

The worsening current account deficit had three proximate causes. First, the Harvard team emphasised the *trade dynamic*, that foreign borrowing was being invested in a manner that would not generate foreign exchange, that is, export capacity was not growing. A weak tradable sector was also argued to shoulder primary responsible for increased unemployment of unskilled workers and exacerbated skills constraint. Second, the OECD has emphasised the *discrepancy between savings and investment*, concluding that reliance on foreign savings was South Africa's main macroeconomic weakness. Third, the deficit is related to the size and nature of capital flows (Smit 2006, Frankel and Sturzenegger 2008, Hausmann 2008, p. 4, Hausmann and Andrews 2009, pp. 36–37, 42, OECD 2010, pp. 36, 44).

The last of these is worth touching upon. Capital inflows have largely been short-term portfolio flows, attracted to South Africa's financial markets, and not FDI (see Figure 10). This brings inherent instability and has stimulated growth in the financial sector but not the real economy. They have also covered for large-scale capital flight discussed in sections two and six above.

9.2 Fiscal Policy under the Current Conservative Consensus

The responsibility for adjustment, it has been argued, must fall on fiscal policy, thus allowing monetary policy to loosen somewhat (Frankel and Sturzenegger 2008, p. 2, OECD 2010, p. 8). To maintain fiscal discipline it has been advised that the government enact *countercyclical fiscal policy* (saving during boom periods and spending in downturns) and consider implementing a *fiscal rule* to maintain this (for example OECD 2010, p. 17, 2013, p. 21). The government had already been moving in this direction. In 2005 it had begun to look into revenue trends leading to an analysis of pro- vs. counter-cyclical policy. In the 2007 *Medium Term Budget Policy* the idea of a *structural budget balance* was introduced (Naidoo *et al.* 2008, pp. 22, 23). Some room has been allowed for spending on economic infrastructure and spurring domestic demand whilst promoting a compositional shift in investment from *current to capital spending*; the latter is code for reducing spending on public servants and the poor. The 2010/11 Budget includes a progressive tightening despite modest debt levels (OECD 2010, p. 35).

Some problems with this approach have already been addressed in our discussion of GEAR. Despite a lack of supporting evidence the Harvard Panel argued that increased savings will spur investment (Hausmann 2008, p. 8). The approach proposed is orientated towards ensuring "stability" and does nothing to alter the prevailing growth path or suggest ways in which the fiscus can be used to address issues of poverty alleviation or redistribution. The implementation of a fiscal rule would further entrench such a bias, and tie the hands of policy makers should they wish to change course. There is a focus on supply-side microeconomic policy to remove the constraints on domestic output (as discussed above) but this does not take seriously how highly interventionist fiscal spending might increase potential output. In fact the Harvard panel argues that government investment spending in AsgiSA is too high (Frankel *et al.* 2006).

9.3 Monetary Policy Under the Conservative Consensus

Inflation targeting is certainly here to stay but the SARB has received some criticism for being overzealous, maintaining too narrow a focus on inflation, and raising and maintaining interest rates too high. As discussed already, the 2010 letter from the Minister of Finance to the SARB noted the need to *take into account other factors* that impact sustainable growth. The consensus is that the right *policy mix* is required: a tighter fiscal stance in order to allow for *somewhat looser monetary policy*. However, stated monetary policy still fails to take seriously that the prioritisation of financial market liberalisation and expansion is really calling the shots. The terms upon which the South African economy is integrated into global financial markets has a substantial influence over monetary policy indicators, as seen starkly by the manner in which monetary policy in the USA has impacted on capital flows to South African and the exchange rate.

Recently, considerable attention has been paid to the *exchange rate*, both its (overvalued) level and volatility, which are seen as damaging the tradable sector (see Hausmann 2008, pp. 7–8). The interventions proposed include: countercyclical fiscal policy to balance structural deficit and offset private capital inflows; more rapid and extensive accumulation of reserves and increased sterilisation; active market intervention using reserves; liberalising capital outflows; raising the savings rate; and, as a last resort, instituting market-based disincentives to discourage destabilising short-term capital inflows (OECD 2010, pp. 15–16, 48–49, 2013, p. 23, Lysenko and Barnard 2011, p. 14). The NDP makes it clear that measures should be employed to combat the volatility of the currency *within a floating exchange rate regime* and should not be unduly interventionist.

The government has instituted a number of these measures. It is worthwhile to note that in the midst of the 2007-2009 financial crisis, controls on capital outflows were further loosened in order to encourage outflows in an attempt to balance the current account deficit and stem currency appreciation. It is instructive that South Africa was one of only three leading emerging markets, out of a sample of sixteen, to respond in this way. Others sought to reduce foreign borrowing, speculative trading, and financial vulnerability, via imposing tax, reserve or minimum stay requirements or limiting financial market participation in a variety of ways (National Treasury 2011, p. 27). There is little scholarship to support the course of action South Africa chose, and no justification offered by the proponents (Creamer 2008, p. 11). Further there is no correlation between capital inflows and growth (OECD 2010, p. 43) and so growth cannot serve as a rationale for prioritising extremely liberalised capital markets above other concerns. Once again, the "financialised" growth path of the economy took precedence and was reinforced.

What such proposed remedies fail to tackle are the structural reasons that perpetuate vulnerability to currency instability, as Strauss notes: 'In the final analysis, a more stable macroeconomy is one which is more diversified and less reliant on commodity markets' (2013, p. 12). This is only possible through actively reorienting the economy away from the MEC. As argued, ad nauseum, the economy has undergone restructuring but one which has maintained the MEC as the prevailing system of accumulation, albeit with novel features.

9.4 The Macroeconomics of National Development Plan

The NDP is primarily underpinned by the same paradigm as GEAR, spelling out its macroeconomic agenda as fostering:

> 'A stable and enabling macroeconomic platform will underpin sustainable growth and employment creation. Within the framework of a floating exchange rate, the government will explore approaches to protecting firms from rand volatility. It will devote considerable attention to fiscal impact on development, through improved efficiency in government spending, and an appropriate balance between investment and consumption expenditures.' (National Planning Commission 2011, p. 137)

The NDP is even less "interventionist"[49] than other proponents of the conservative consensus by downplaying the need to stabilise the exchange rate and relax monetary policy, dismissing the role of state-led investment and industrial policy, narrowly conceptualising growth, and even ignoring competition policy. In these ways, it is a regression from earlier policies. Like its predecessors it also demands labour market deregulation, disadvantages labour in favour of capital, praises the financial sector, and ignores capital flight. It does make rhetorical references to pro-labour policies but most often without giving any detail or substance. It is relevant to question whether the NDP is actually intended to be policy in practice or whether it is a rhetorical exercise that marginalises more progressive programmes and provides cover and discretion for existing and evolving policies. Embarrassingly, it is internally contradictory, both in detail and substance, theoretically unsubstantiated and inconsistent, and littered with statistical and factual errors (see COSATU 2013, pp. 36, 43–44 for a few examples).

9.5 Growth Under the Conservative Consensus: Industrial Policy and the Developmental State

[49] "Interventionist" is in quotation marks because a policy is often argued to be "interventionist" when it attempts to moderate market imperatives, but not when it provides a boon to capital, or supports (somehow naturalised) market processes. The NDP has very little intervention of the first sort, but much of the latter.

There has been a revival of a militant adherence to an export-led growth path that was apparent in GEAR, with trade liberalisation remaining firmly entrenched (the Harvard Panel stressed greater trade open, see Frankel *et al.* 2006, pp. 43–46). This forms the centrepiece of the NDP strategy, whose economic strategy is unintelligible. The NDP foresees 9.9 million of the projected (wished for?) 11 million jobs being created by SMMEs mainly in the service sector (National Planning Commission 2011, chap. 3). This runs counter to the evidence that SMMEs do not drive job growth in South Africa (large firms do) (Kerr *et al.* 2013). The NDP is not a plan for industrialisation and has no real industrial policy, it is highly congruent with GEAR in many respects, emphasising: liberalisation, deregulation and the cold winds of international competition (see COSATU 2013, pp. 22–30 for a critique). It provides the basis for the continuation of the current growth path, accentuating this in some respects (for example via labour market deregulation, see below). This is a step backwards from other key policy recommendations of the 2000s that acknowledge the need for industrialisation and some form of industrial policy.

Even outside the NDP, understanding of industrial policy, the obstacles hindering growth, and the developmental state has proved to be remarkably thin. This can be well-illustrated in the case of the Harvard Panel. They reduce structural impediments to expansion – embedded in the conglomerate structure of the economy – to freedom of entry, insufficient competition, information externalities and coordination failures. Whilst an improvement on a perfect markets approach, this does not grapple with the real structural impediments to growth, leads to an extremely narrow conception of industrial policy, and justifies a minimal role for the state (see Hausmann 2008, Hausmann and Andrews 2009, and Fine 2009d, 2009e for a critique). It is not unexpected then that emphasis on more interventionist industrial policy in the *New Growth Path* and the *Framework for South Africa's Response to the International Economic Crisis* (RSA 2009) has not resulted in concrete action (OECD 2010, p. 30). It is also unsurprising that the NDP accentuates this and sees the state as merely enabler of the private sector.

The NDP also reverts back to the narrowest conceptualisation of economic growth, focusing on the rate of growth and not on its composition or its redistributive consequences. In this it contradicts the NGP and a range of ANC economic policy resolutions (COSATU 2013, pp. 33–34) but is consistent with most other government policy (on paper and in practice). The plan explicitly notes that, in line with unspecified international experience, wage improvement, and employment, will only be generated after economic growth accelerates (COSATU 2013, p. 36). The language of "trade-offs" has become pronounced with consistent fallacious references to how directly tackling equity could impede growth (see for example Presidency 2004, Economic Development Department 2010, Naidoo 2013).

All this has been accompanied by an incredibly weak conceptualisation of the "developmental state" which is defined by its *capacity for policy implementation* and not by a developmental agenda (see for example Presidency 2008, Economic Development Department 2010). Where the "developmental state" is linked to a specific agenda, for instance in the NDP, the agenda is neoliberal and not developmental (see National Planning Commission 2011, chap. 13). The inclusion of this notion is clearly about legitimisation and rhetoric.

The erroneous analysis and nonsensical policy prescripts of the economics chapter of the NDP has increasingly been at least tacitly, and often explicitly, acknowledged. This has led to the declaration that the 'NDP is a living document, not cast in stone, and needs to be adapted, where appropriate' (ANC *et al.* 2013). Such a concession was the product of vigorous opposition to the NDP by COSATU and the SACP and has opened further room for contestation. However, the NDP still sets the parameters within which such debate currently ensues and provides a frame in which policy is being made with considerable elite discretion and rhetoric. While the President only referred to the NDP briefly in his 2014 State of the Nation address, the Minister of Finance noted, in his 2014 Budget speech, that the 'NDP … prepares the ground for the next phase of our economic and social transformation' (Gordhan 2014, p. 9).

9.6 Labour Markets and Capital Playing Ball

Labour market "reform" (that is, deregulation) is deeply embedded in the conservative consensus. South African labour laws may need some reform to make them more efficient and less cumbersome, but the agenda has been to undermine minimum wages and collective bargaining whilst casualising employment. This is underpinned by the theoretical misconception that minimum wages and other "rigidities" hinder investment and the empirical fallacy that South African wages are "too high" and consistently rising. The former is contradicted by much scholarship and empirical research, and there is no definitive negative relationship between minimum wages and employment nor a straightforward relationship between unionism, wage differentials, and levels of (un)employment for skilled and unskilled labour (Fine 1998, 2009e, p. 75).

In South Africa there is no serious evidence that the wage cost of low-skilled workers is constraining the economy's growth and rates of investment. In addition *real* wage growth has not risen much (if at all) since the end of apartheid, with the unions barely managing to stop them from falling, whilst they have declined steeply relative to earnings in the top deciles (Rodrik 2006, p. 5, OECD 2013, p. 22). Further real unit labour costs (wages relative to labour productivity) have witnessed declining real growth, and have been negative since early 2011 (Strauss 2013, p. 6), with South African industries having shown a persistent trend towards capital deepening. Wage push factors did not account for the loss of manufacturing jobs in the 1990s, which resulted from import penetration and exchange rate appreciation (Rodrik 2006).

Despite this, the clarion call for labour market "reform" and wage restraint has been vociferous and, in one form or another, found its way into every policy package since GEAR, supported by mainstream economists across the board. The NDP is particularly stringent in this regard proposing widespread deregulation and arguing that young workers will need to accept low wages until at least 2020

(COSATU 2013, pp. 37–38, 41–43). This is tied in with the weak analysis of the drivers behind the levels of investment. Labour is the only abundant (surplus) resource and therefore, in the absence of coherent policies to *increase the levels of financial and other resources available to be directed* towards employment generating investment, must be squeezed in the unsubstantiated hope that this will mean more jobs. Whilst labour is expected to make this "trade-off" there is no commensurate sacrifice expected by capital; the only wish is that capital increases investment within an environment in which profit rates are above comparative international levels, hardly a sacrificial offering (COSATU 2013, p. 38). The proposed "social accords" which pepper policy proposals, including the NGP and the NDP and hark back to similar proposals in the 1990s, mean a reduction in the overall wage share and place the burden of "restructuring" on the shoulders of labour (COSATU 2013, pp. 39–40)

9.7 Summary of the Conservative Consensus

The key prescriptions of this "conservative consensus" consist of restrictive, counter-cyclical fiscal policy (aimed at reducing the structural budget deficit) with movement towards the implementation of a fiscal rule (notably an expenditure rule) and some room for spending on economic infrastructure and spurring domestic demand. A compositional shift in investment from current to capital spending is promoted. This is combined with a slightly more accommodating monetary policy that maintains inflation targeting and promotes an open capital account but pays new attention to the value of the real exchange rate. The latter includes increasing additional and larger purchase of foreign exchange reserves, and is particularly important because growth is seen to come from increased exports. Accompanying these is a set of supply-side microeconomic reforms, in particular a drive towards labour market flexibility. Employment creation and more equitable wealth distribution are purportedly central tenets and are seen to derive as a consequence of economic growth. There is a token acceptance of industrial policy and a "developmental" state but the conceptualisation of these is incredibly thin. "Macroeconomic stability", therefore, remains paramount with the state playing a relatively limited role.

This policy package is at odds with much of the rhetoric of the ANC and the sharp break in policy and radical redistributive agenda that it professes to be undertaking whilst normalising as much as possible what was previously contested. It is also a far cry from the transformative agenda envisaged by some within the anti-apartheid movement during the transition to democracy. It should be clear how this policy package displays strong continuity with previous policy in practice and continues to entrench the existing growth path, and the manner in which that has evolved over the last two decades.

10 BY WAY OF CONCLUSION: STRUCTURAL ANALYSIS AND TRANSFORMATION

The impotence of the paradigm that prevails within the NDP is in part because it lacks any meaningful structural and historical analysis, another hallmark of orthodox economic approaches.[50] In all 484 pages the 'structure of the economy' appears only four times, and then with empty pronouncements such as: 'It will also require a change in the structure of the economy and the pace at which it grows. The crisp question is how.' (National Planning Commission 2011, pp. 39, see also 56, 150, and 464) Elucidation of what the prevailing structural dynamics are and how the political economy needs to be (re)shaped in order to make development targets obtainable is completely absent. Two other allusion in the NDP to structural dynamics are references to the 'high cost structure' of the economy, a clear swipe at labour market regulation (National Planning Commission 2011, pp. 32, 111, 115, 116, 126, 148), and the need to 'deracialise ownership structures as well as the top echelons of the business community' (National Planning Commission 2011, p. 139). Only once is historical context given to current constraints, and that is to blame the prevailing structure of the economy on apartheid (National Planning Commission 2011, p. 464). Of course we live with the legacy of apartheid but twenty years on this is simply not sufficient to explain the sorry state of the economy and serves merely as a smokescreen to obscure the failings of the democratic government.

The analysis that underpins much of the policies described is highly technocratic. There is an interrogation of the poor levels of investment, high unemployment and inequality, current account deficits, and exchange rate instability, whose proximate causes are explicated. However, these dynamics are divorced from (or devoid of) a probing analysis of the political economy of South Africa. This allows for the deployment of policy prescriptions rooted in neo-classical economic orthodoxy, which is itself divorced from social, political and economic context.

This further justifies a limited role for the state, as a lightly regulated market is perceived as the best means of ensuring growth (see Fine 1997 for a discussion on the theoretical flaws of market led developmental strategies). This is a cardinal feature of the neoliberal paradigm described at the outset. Such a framework rejects the propositions (for which there is much empirical support) that the state can usefully steer the market. It ignores that the market, left largely to its own devices, cannot and will not be a vehicle for a transformative social agenda aimed at greater equity and human dignity, the purported aims of the ANC Government.

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[50] The 'binding constraints' of the 2006 Accelerated and Shared Growth Initiative South Africa (ASGISA) are also presented without any attention to what features of South African economic development may have given rise to these conditions (Presidency 2006). When structural features are tackled, for example, in the New Growth Path's characterisation of features of the old growth path, the analysis is shallow and does not unpick the underlying dynamics of the South African political economy (Economic Development Department 2010, Fine 2012).

This paradigm is supported by the New Consensus Macroeconomics which has underpinned policy. The lack of structural analysis is implicit in conceptualising the economy as made up of atomised utility maximising individuals, inherent in the insistence on "micro-foundations" to macroeconomic policy. Further, given almost perfect markets, a tendency towards equilibrium, and the neutrality (or harmfulness) of fiscal intervention, the role of macroeconomic policy – and hence the state – is highly circumscribed. Finally, the narrow conception of monetary policy and the failure to tie this to financial market dynamics, means a further narrowing of the scope of macroeconomic policy. Given all this, it is no surprise that macroeconomic policy is cast as "neutral" and given only a "stabilising" role.

On the contrary, as has been argued here, macroeconomic policy has been far from neutral. Rather it has been instrumental in the restructuring of the corporate sector in the democratic era: liberalisation; the unbundling and restructuring of the conglomerates; consolidation within sectors; black economic empowerment; internationalisation of large capital; and financialisation. Despite this, the deeper dynamics of the economy have not been altered, with the centrifugal force of the economy remaining in mining, and mining-related, industries, and the financial sector; the MEC as a system of accumulation still prevails. Despite growth in retail, telecommunication, construction, business services, and tourism, the manufacturing sector remains weak and poorly diversified, with little expansion of low-skilled labour-absorbing industries. This means that political and economic power remains concentrated, implying that the high degree of economic concentration cannot be undone by simplistic appeals to increasing competition. Similarly, the financial sector is not geared towards meeting developmental ends and the neglected dynamics of international and domestic financialisation are exacerbating this. This will not be resolved through a macroeconomic approach that prizes liberalisation and price stability above all else.

The conservative consensus therefore offers us little that is either new or likely to alter the current, shockingly inadequate, developmental trajectory of South Africa. Despite rhetoric to the contrary, and not withstanding a broadening in the 2000s, South African macroeconomic policy remains incredibly conservative, underpinned by neo-classical orthodoxy, favourably skewed towards the interests of local and international large capital, and has facilitated the penetration of market dictates, particularly those of financial markets, into more and more spheres of economic and social life.

What aspects of the macroeconomic agenda will be implemented, given the recent contestation over the economics chapter of the NDP, remains to be seen. However, there is little to indicate that the conservative census described here is being displaced. By wilfully ignoring the structural deficiencies of the economy the prevailing growth path is left unchallenged. The NDP and (to differing degrees) its predecessors thus reinforce this growth path, and the restructuring of the economy that has occurred, without suggesting any reorientation towards policies that challenge the interests of large capital and benefit the poor majority.

APPENDIX: GRAPHS AND TABLES

Table 1: Conglomerate Market Capitalisation as Percentage of JSE

	1985	1990	1991–1995	1996–2000	2001–2003	2004
Anglo American Corp	53.6	44.2	38.9	22.7	23.3	18.7
Sanlam	12.2	13.2	12.7	11.2	6.1	2.7
Stanbic/Liberty Life	2	2.6	5.8	9	5.2	4.7
Rembrandt/Remgro/Volkskas	3.8	13.6	13.2	10.2	9.2	7.9
SA Mutual/Old Mutual	10.6	10.2	11.2	10.4	9.9	4.5
Anglovaal	2.1	2.5	3.1	1.2	0	0
Black-owned groups	–	–	–	7.4	4.2	6.3
Top 6 Conglomerates	82.3	83.9	85.9	70.6	53.6	38.5

Source: Chabane et al. (2006, p. 553) from McGregors various years. Slightly adapted

Table 2: Conglomerate Ownership 1988

	Non-Financial		Financial**		Ownership
	Mining	Industrial*	Bank or Building Society	Long-term Insurance Group	
Anglo American Corp	Amgold Amcoal De Beers JCI	AMIC AECI Premier Group	First National Bank First Western First Industrial First Coporate Bank	Southern Life	Oppenheimer family
Sanlam	Glencor	Malbak Murray and Roberts Fedvolks Fedfoods Semtrachem	Trust Bank Santambank Senbank	Sanlam	Mutual organisation until 2000s
Stanbic/Liberty Life			Standard Bank Standard Merchant Bank Stannic	Liberty Life	Gordon family
Rembrandt/Remgro/ Volkskas	Remgro GFSA		Volkskas Boland Bank Volkskas Merchant Bank Rand Merchant Bank Allied United Building Society (UBS)	Lifegro Federated Life	Rupert familiy
SA Mutual/Old Mutual	Rand Mines	Barlow Rand CG Smith Safren Plate Glass CGS Foods Tiger Oats ICS	Nedbank Nedfin UAL Mutual Bank Perm Building Society	SA Mutual	Mutual organisation until 2000s
Anglovaal	Anglovaal	South Atlantic			Mennell and Hersov families

* Olny companies with a turnover great than R1billion are listed
** Only companies with worth greater than R1billion and where the shareholding is greater than 10% are listed (First Corporate is the exception at R0.8billion)

Source: Source: Fine and Rustomjee (2006) Tables 5.9. and 5.10. pp. 106-107 and p. 108 and Chabane, Goldstein, and Roberts 2006, p. 553

Table 3: Sectoral Contribution to GVA

	1946 - 1959	1960 - 1979	1980 - 1993	1994 - 1999	2000 - 2006	2007 - 2012
Agriculture forestry & fishing	14	9	5	4	3	3
Mining & Quarrying	11	11	12	7	8	9
PRIMARY SECTOR	25	20	17	11	11	12
Manufacturing	19	22	23	20	19	15
Electricity gas & water	2	3	4	3	3	3
Construction (contractors)	3	4	3	3	3	4
SECONDARY SECTOR	24	29	30	27	24	21
Wholesale & retail trade catering & accommodation	15	14	13	14	14	15
Transport storage & communication	10	10	9	9	10	9
Financial intermediation insurance real estate & business services	10	13	13	18	20	22
Community social & personal services	16	16	18	23	22	22
TERTIARY SECTOR	51	52	53	64	66	68

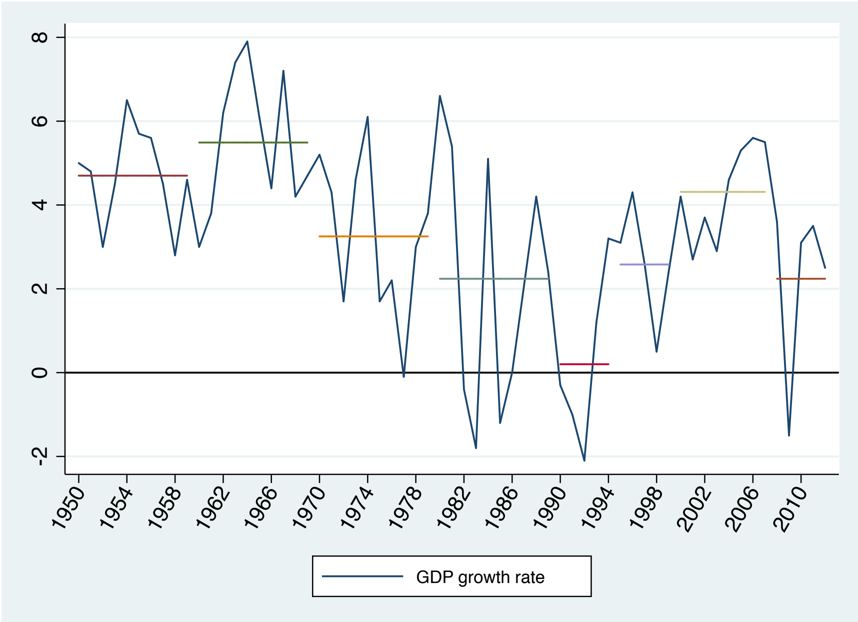
Source: SARB, Macroeconomic Timeseries Data

Table 4: Sectoral Contribution to GFCF

	1946 - 1959	1960 - 1979	1980 - 1993	1994 - 1999	2000 - 2006	2007 - 2012
Agriculture forestry & fishing	14	7	4	4	3	2
Mining & Quarrying	12	8	12	9	9	12
PRIMARY SECTOR	25	15	16	12	12	14
Manufacturing	14	19	20	23	21	18
Electricity gas & water	8	9	12	7	5	11
Construction (contractors)	1	1	1	1	2	2
SECONDARY SECTOR	23	29	33	31	28	30
Wholesale & retail trade catering & accommodation	6	6	6	6	7	6
Transport storage & communication	15	14	10	13	14	16
Financial intermediation insurance real estate & business services	19	17	21	23	22	17
Community social & personal services	11	18	14	14	16	17
TERTIARY SECTOR	52	56	51	56	60	56

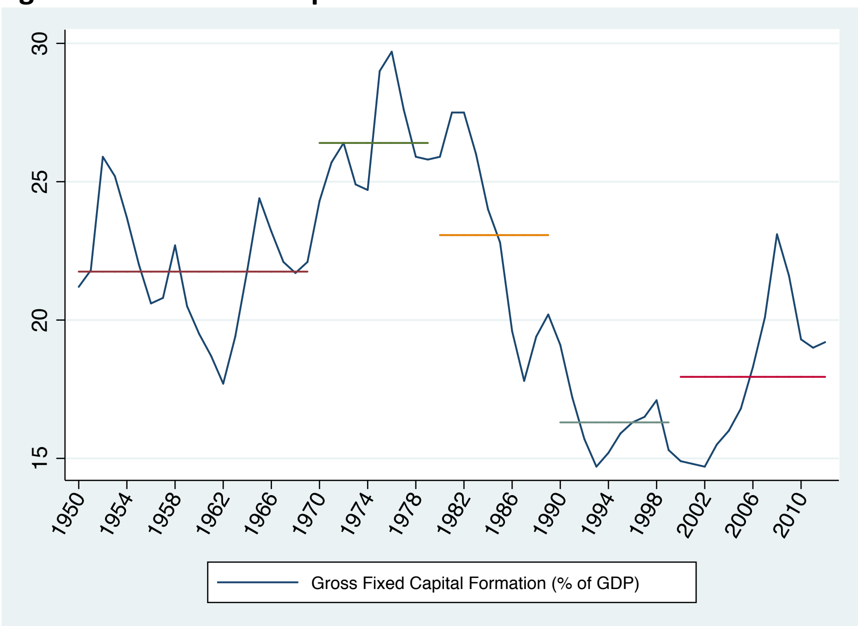
Source: SARB, Macroeconomic Timeseries Data

Figure 1: GDP Growth Rate



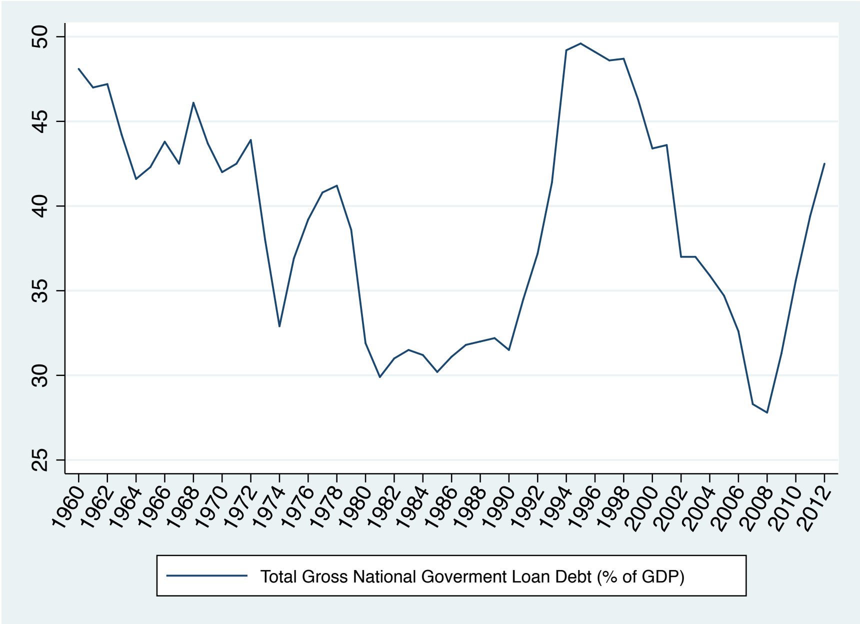
Source: SARB, Macroeconomic Timeseries Data

Figure 2: Gross Fixed Capital Formation



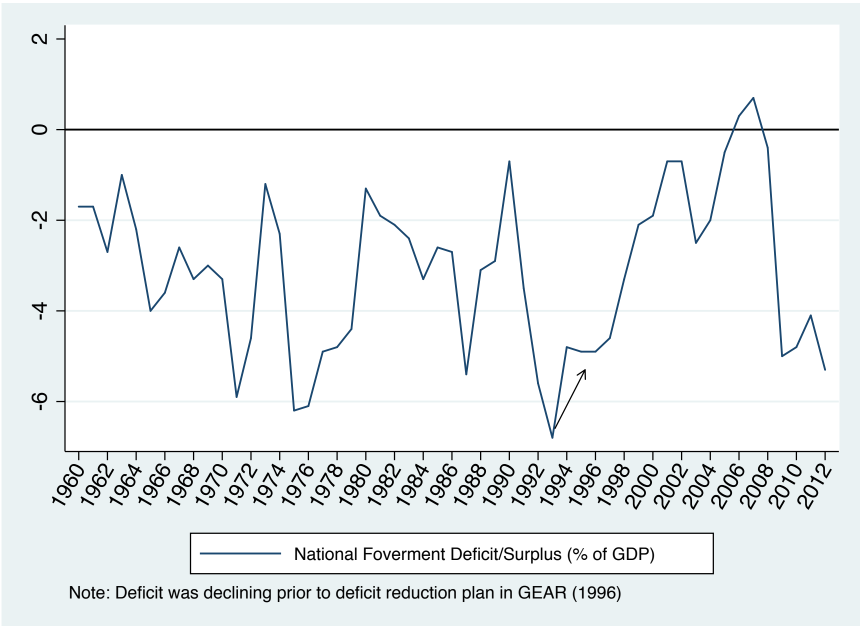
Source: SARB, Macroeconomic Timeseries Data

Figure 3: Debt to GDP



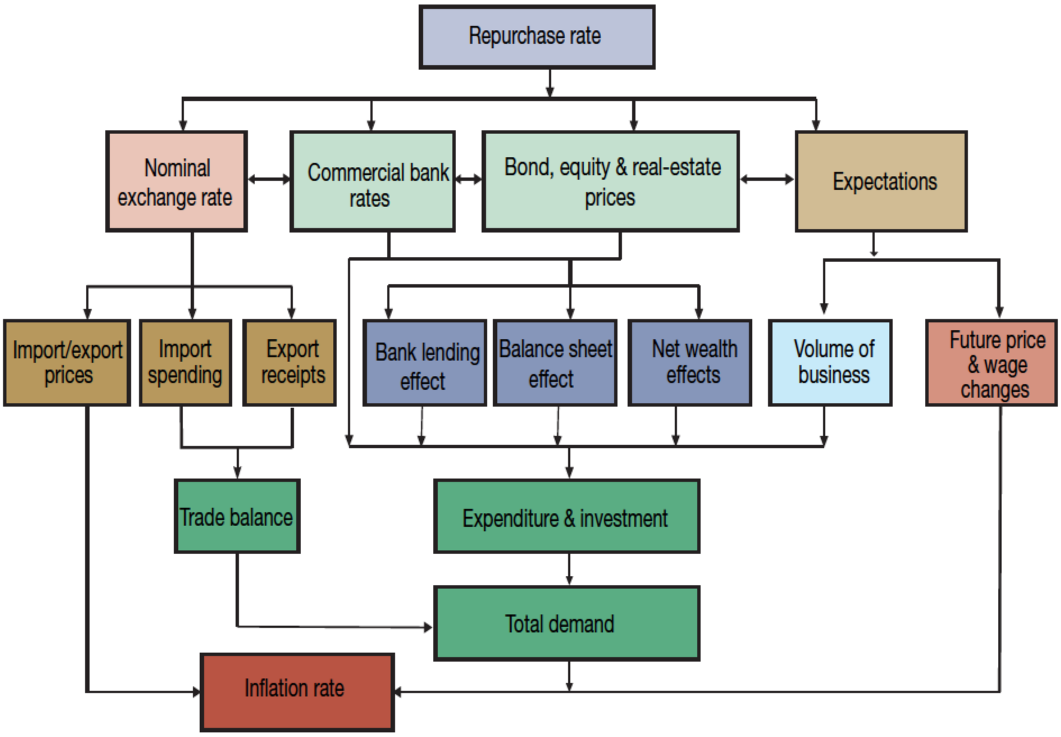
Source: SARB, Macroeconomic Timeseries Data

Figure 4: Budget Deficit to GDP



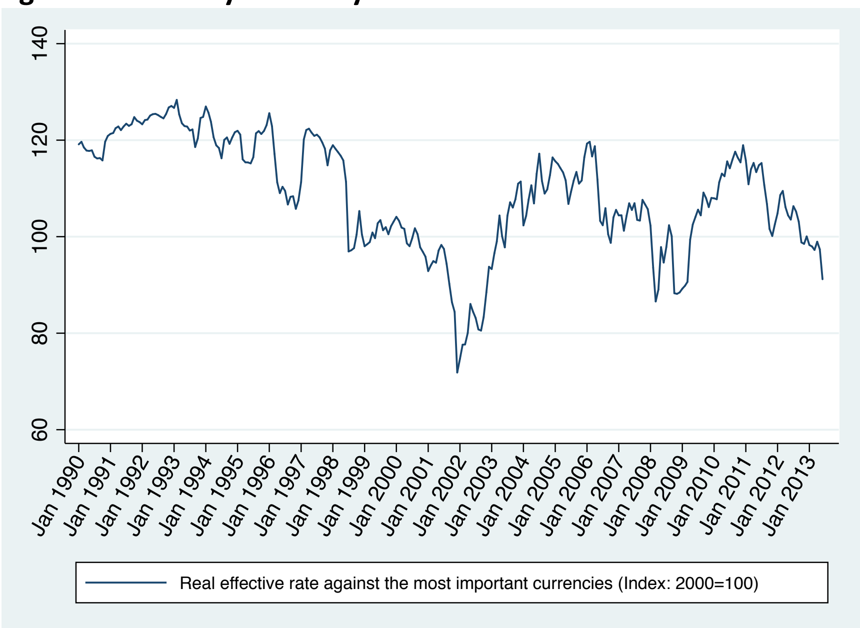
Source: SARB, Macroeconomic Timeseries Data

Figure 5: South African Reserve Bank Monetary Policy Transmission Mechanism



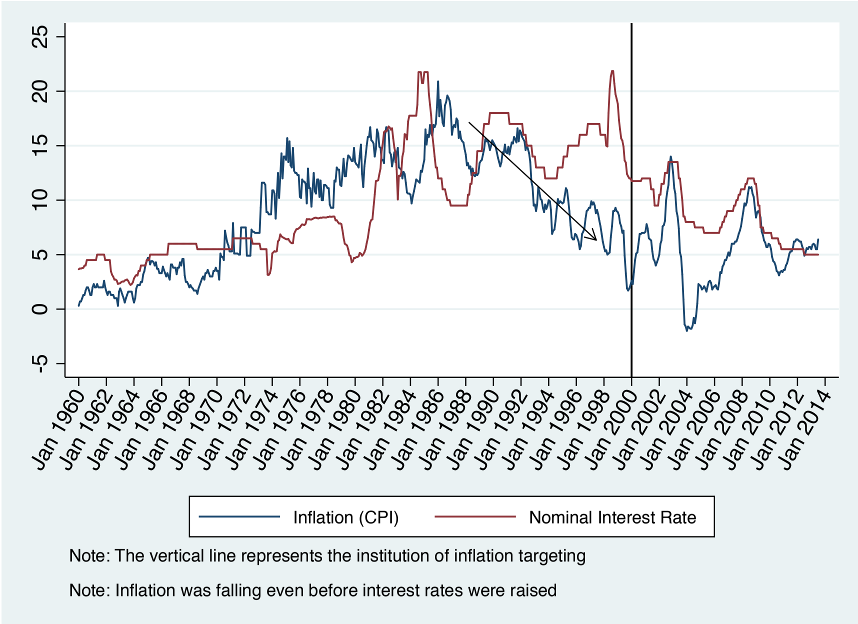
Source: SARB (2004) Figure B3.1, p. 24

Figure 6: Currency Volatility and Crises



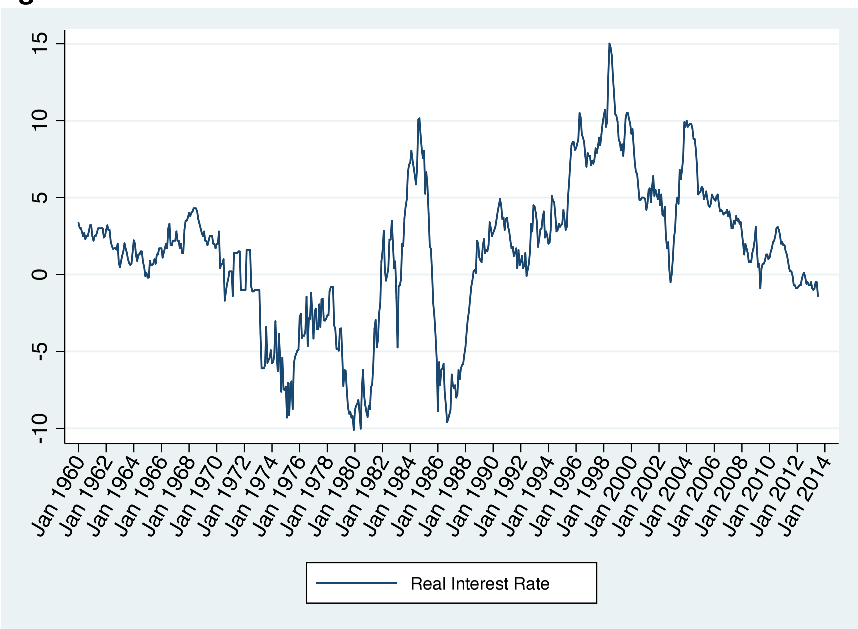
Source: SARB, Macroeconomic Timeseries Data

Figure 7: Inflation and Nominal Interest Rates



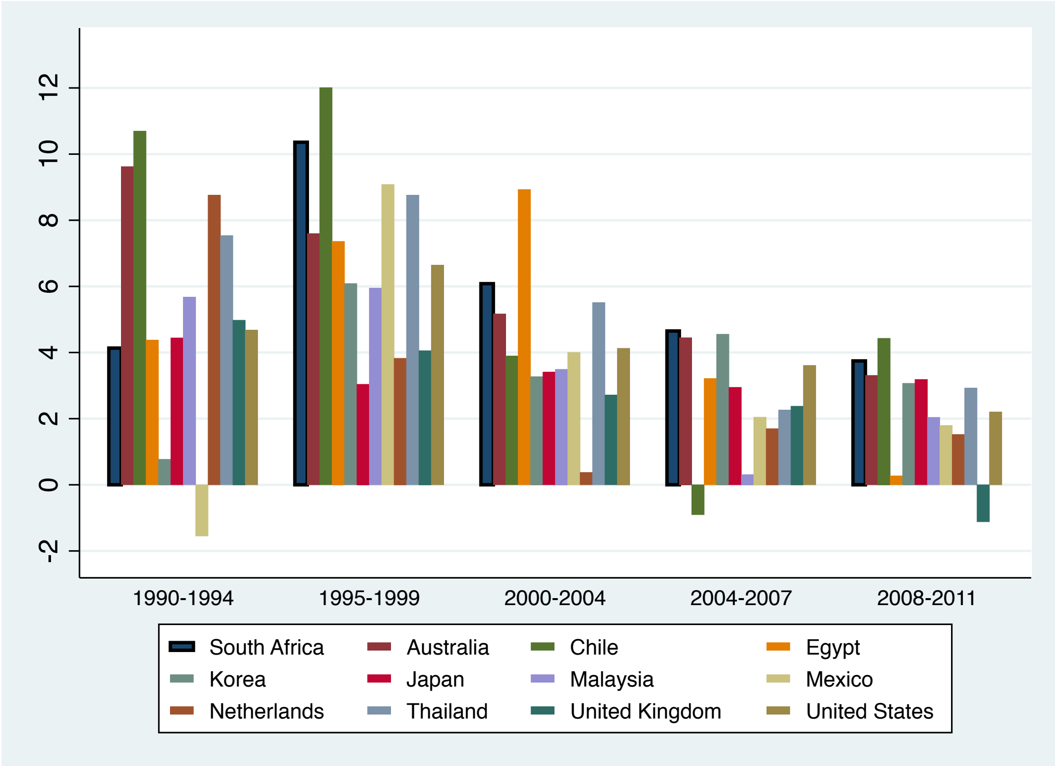
Source: OECD Dataset (MEI)

Figure 8: Real Interest Rates



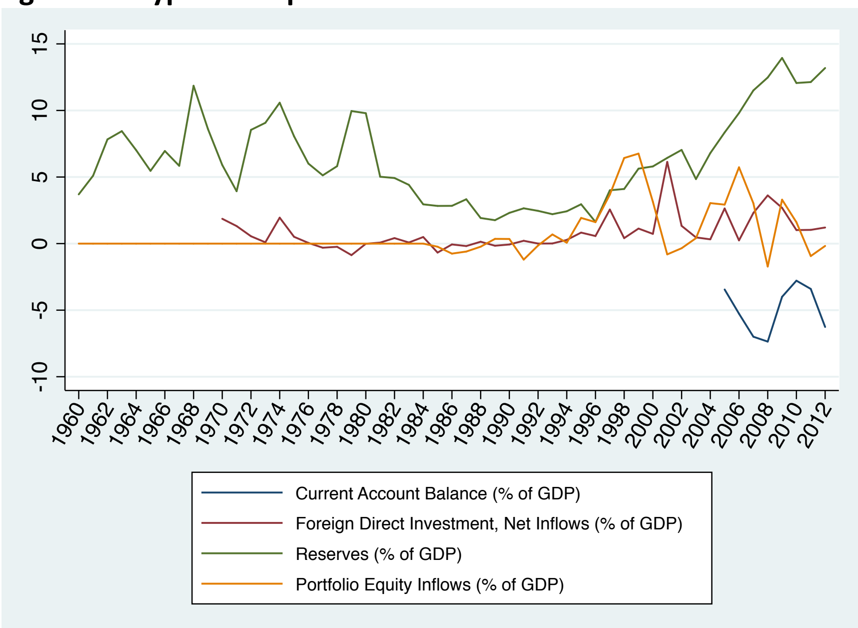
Source: OECD Dataset (MEI)

Figure 9: Real Interest Rate Comparison



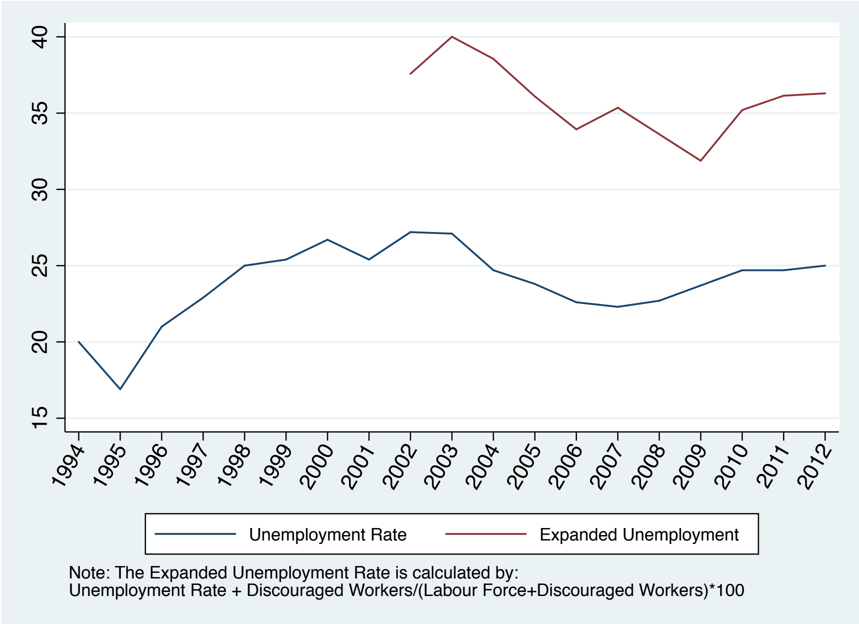
Source: World Bank, World Development Indicators

Figure 10: Types of Capital Flows



Source: World Bank, World Development Indicators

Figure 11: Unemployment Rate



Source: World Bank, World Development Indicators and International Labour Organisation

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