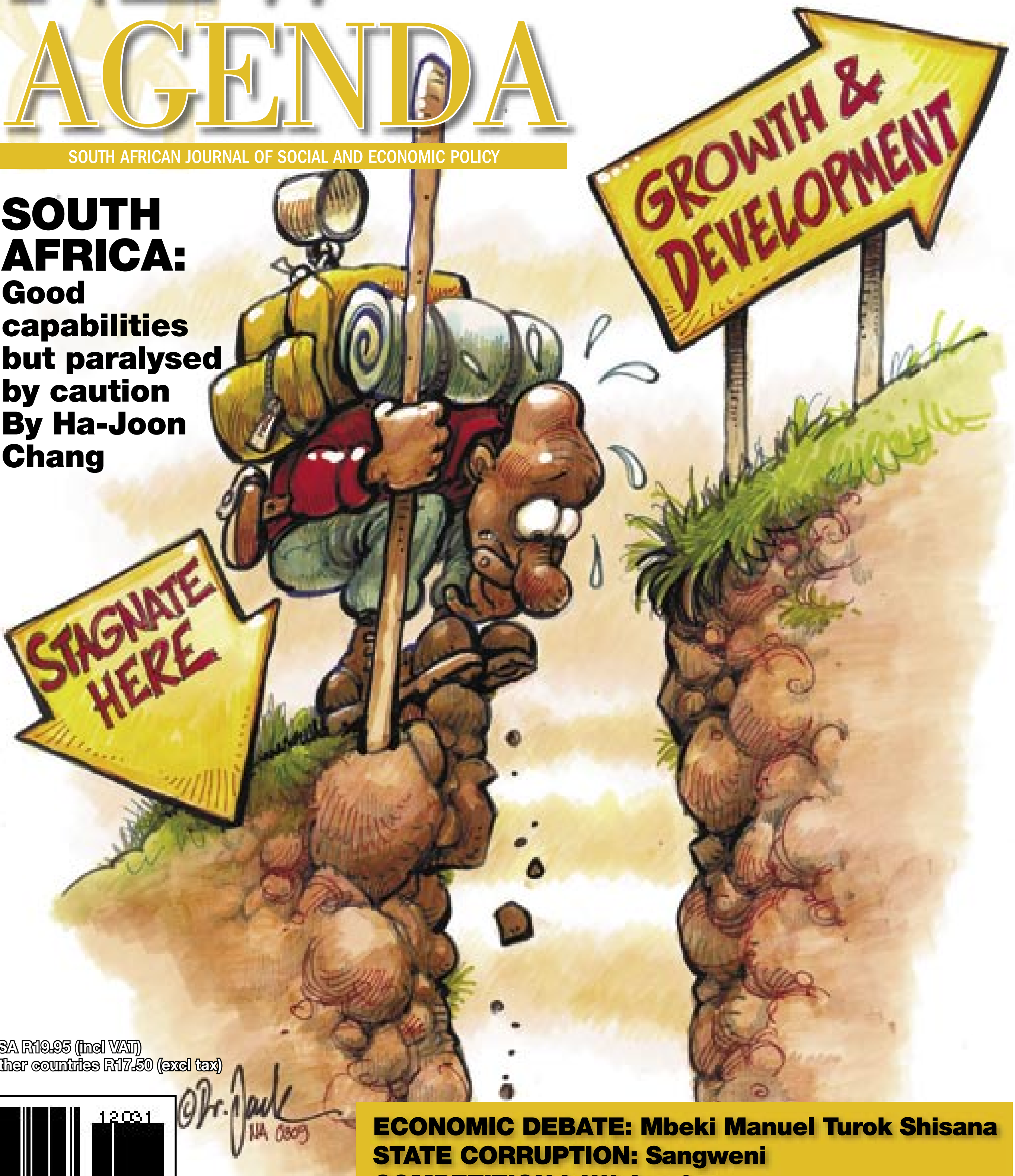
NEW AGENDA ISSUE 31 THIRD QUARTER 2008 Picasso Headline

NEW AGENDA

SOUTH AFRICAN JOURNAL OF SOCIAL AND ECONOMIC POLICY

SOUTH AFRICA:
Good capabilities but paralysed by caution
By Ha-Joon Chang



RSA R19.95 (incl VAT)
Other countries R17.50 (excl tax)

ECONOMIC DEBATE: Mbeki Manuel Turok Shisana
STATE CORRUPTION: Sangweni
COMPETITION LAW: Lewis

NEW AGENDA ISSUE 31 THIRD QUARTER 2008

New Agenda is a publication of the
Institute for African Alternatives (IFAA)
PO Box 12491
Mill Street
8010

(Supported by Friedrich Ebert Stiftung)

Website
www.ifaasa.org

Administration
Tel: +27 (0) 21 403 2593
Fax: +27 (0) 21 461 9390
E-mail: bturok@anc.org.za

Published by

PICASSO HEADLINE
Excellence in niche publishing
A subsidiary of Avusa Media Ltd

Design and layout
Maresa Pretorius

Sub Editors
Helen Douglas
Michel Metford-Platt

Advertising Sales and Marketing Team

Sales Manager	Robin Carpenter-Frank
Project Manager	Zakar Swartz
	newagenda@picasso.co.za
Sales Consultants	Monde Tulwana
	Jonathan Philips

Tel: +27 (0) 21 469 2400

New Agenda is accredited with the Department of Education contained in Government Gazette No 7794, Volume 460 of 14 October 2003 No. 25583

Distribution queries:
Stuart Dickerson
Tel: +27 (0) 11 401 5844

NEW AGENDA

Editorial Board

Issue 31

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Navigating the way to development

editorial opinion

By **Ben Turok**

The debate concerning the state's role in guiding the development of the South African economy has become deeper and more urgent. This issue of New Agenda *covers this discussion from several angles, including:*

- *an interview with development economist Ha-Joon Chang*
- *an extract from President Thabo Mbeki's speech to a World Bank conference*
- *an overview of the policy issues facing a developmental state written by leading South African researchers, and*
- *an exchange of correspondence between Finance Minister Trevor Manuel and* New Agenda *editor Ben Turok.*

During the recent parliamentary debate on the presidency's budget, Turok raised the following challenges:

"What are the lessons for South Africa? We have a democracy, and there is huge mass support for the ANC. This is something upon which we can rely rather than be fearful of. Firstly, we must expand the capabilities of all our people. This is a rich country; we have excellent institutions; we have massive natural resources; and we have a great deal of know-how. We must mobilise all these to a higher level, including the ordinary people of this country who have capabilities that are not always recognised.

"We must also use more state intervention. We must not be timid in this area. We have a strong state and great capabilities – let us move. Let us also plan. And it seems to me that we should not be timid about planning. There is nothing to be ashamed of. We are not talking about a command economy with central planning. But let us plan just like the private sector does – to give direction to business and to co-ordinate business. Why is it that the partnership between the state and business in South Africa isn't as it should be? Let us give more direction.

"Let us also create an effective public service, which is as strong, educated and efficient as those they had in South Korea, Japan and other countries. Let us not hesitate in this area.

"Now, we talk about a democratic developmental state and not an authoritarian one. Let us expand the capabilities of ordinary people in line with democratic practices. We talk about a bottom-up democracy. Let us implement that. Let us ensure that in every project there is public participation. In this way, we will build a healthy democratic developmental state along the lines that our president argued in front of the World Bank."

New Agenda editor Ben Turok was awarded the Frantz Fanon Award for Public Discourse and Intellectual Work by the South African Students Congress (SASCO) at its 15th national congress, held at Walter Sisulu University, Mthatha, 11 July 2008.

South Africa paralysed by caution

An interview with Ha-Joon Chang

A professor at Cambridge University, **Ha-Joon Chang** is a leading figure in the world of development economics. **Ben Turok** interviewed him at Magaliesberg on 4 June 2008

BEN TUROK: We'd like to discuss how governments can direct or relate to business for development purposes. South Korea is said to have been a model of collaboration between the state and business. What led to that and how was it possible?

HA-JOON CHANG: In the 1950s, we had a president [Syngman Rhee] who was not really interested in development. He once famously said that our country's rice shortage was because people wouldn't eat things like beef. He was Korea's answer to Marie Antoinette! He was from a very rich, aristocratic family and educated in Princeton – when most Koreans didn't even know that there was such a university.

In 1961, we had a military coup, by a group of army officers led by General Park [Chung-Hee]. Most of them, when they were young, were communists actually. They didn't have much time for capitalism, although they had to give constant lip-service to free enterprise and free markets. Because, at that time, Korea was a client state of the US. If you made *any* noise about communism, you'd be gone!

At the beginning of the military coup, they arrested all the major businessmen and put them in prison on charges of corruption – which held, of course, because they were very corrupt. Then, after about a month, they let them out, by making them sign a public declaration that they were going to run their business for the benefit of the country. So the pattern was set. It was always the state dictating things to these guys – although, in 1990s, things changed. But, at least in the high-growth years of the 1960s, '70s and '80s, it was always government calling the shots. They had quite comprehensive planning; they controlled all the banks.

BT: How strong was the private sector, if they could be tackled so easily?

H-JC: They were not very strong because they were not very large.

BT: It was a poor country.

H-JC: That's right. In 1961, South Korea's per capita income was $82. In the same year, Ghana's per capita income was $179. It was a very poor country and therefore the businesses were very low-tech: refining sugar, making cheap textiles and selling vegetables. There were a few large textile firms, but they were basically very weak, and the coup leaders seized the opportunity and put them in their place.

Later, they grew into world-class companies and, by the ’90s, they were constantly banging on the government’s door, saying “we want more freedom, we want more freedom”, and they finally got it. But in the high-growth period, they were more or less subordinate to the government.

One thing I must mention is that, while the government was calling the shots, it did have good communication with the private sector. It wasn’t antagonising them, just trying to help them – as a kind of senior partner, if you like. It was clear who was the boss.

BT: Did they finance the private sector at this stage?

H-JC: Oh, with all sorts of things. There was lots of protection: subsidies, tax write-offs…

BT: So the government was really trying to stimulate industry and so on?

H-JC: Exactly. At this relatively low level of development, the private sector does not have enough capabilities and they are also risk-averse, so the government had to *push* them into industries like shipbuilding and automobiles. They didn’t walk into that voluntarily.

The idea behind the plan was infant industry protection

BT: Who decided where they should go?

H-JC: This was partly based on consultation between the government and the private sector. It wasn’t as if the government said, “We know everything. You just do what we tell you to do.” They listened to the private sector and tried to find out what they needed and where their capabilities lagged, and, in the end, the government made that decision. This was done mainly by the planning ministry, which is called the Economic Planning Board, which – unlike other countries, including Japan – also controlled the budget. The finance ministry collected the taxes, and then they had to give it to the planning ministry, who basically decided.

BT: They planned the whole budget and the allocations and everything?

H-JC: Yes, yes. Of course, they worked with other ministries and listened to other people, but they controlled the budget and, every five years, published the Five-Year Economic Development Plan.

BT: What was the essence of the plan? How did it lead to the huge industrialisation that we saw?

H-JC: The idea behind the plan was infant industry protection – which happens to be the idea behind almost all the successful industrial development experiences in history, starting from 18th-century Britain, 19th-century US and Germany, and 20th-century Japan. The idea was that you will *never* develop simply by following current market signals, because the current market signals keep telling you that Korea should be specialising in cheap textiles, Korea should be specialising in making shoes. The idea was that you need to develop the capability to do difficult things that not many other countries can do. That is the only way to become rich and developed.

BT: How did Korea decide where to go and what capabilities you wanted to develop as a country?

H-JC: One thing was to watch the rich countries to try to see what they do, and another was to try to understand global trends. The reason for the success of the East Asian countries was partly excellence, but mainly by understanding international technological trends, so that they got into electronic industries before most other countries.

BT: By looking at potential world markets?

H-JC: Exactly, yes. Where are productivities growing fastest, which are the industries where the markets are expanding the fastest…

BT: But this is a quite sophisticated analysis.

H-JC: Well, yes, you need clever, sophisticated people. And it depends on how you define that, because most of the people who ran successful economic policies in East Asia were not trained economists, you know. Most of the economic bureaucrats in Japan were lawyers by training. In Korea, you had more economists than in Japan, but the lawyers were very predominant until the 1970s. In Taiwan, as in today’s China, most of the leading economic policy makers are not economists; they are engineers.

It is important to get clever people, people who have good judgement, but people are often confused that we need people with PhDs in economics from MIT or Harvard, which is not the case. These are difficult judgements to make, but you don’t actually need a PhD in economics to know those things.

BT: How did this very poor country, with few resources, move into the *chaebol* [conglomerate] system, and all that?

H-JC: Even if you have little natural resources, when you are poor, these are the only things you can sell. In the 1950s, close to 70 percent of Korea's exports were natural resource sales. Tungsten ore was one thing of which we had quite a considerable amount. Mainly, we were exporting things like fish, to Japan – for their sashimi. (laughs) It was a desperately poor country, but they did not believe for a minute in the standard trade theory that says you need to focus on what you are relatively good at, at this moment, and that is how you develop.

BT: By comparative advantage?

H-JC: Yes, they realised that if they followed comparative advantage, Korea would be forever exporting fish!

They said we are going to do something different – but one credit that you have to give them is that they didn't try to jump from exporting fish to making BMWs overnight. They said we have to do it step by step, although each step was quite quick, like ten years. At the beginning, they started with very labour-intensive manufacturing, like cheap garments, stitching T-shirts or making wigs with human hair.

BT: Was this by domestic companies or part of the international chain?

H-JC: Some of them were multinational companies, but it was largely domestic companies subcontracting for the multinationals. They started with those kinds of things, and then, by the late '60s, they moved into slightly more difficult things, like plywood, putting together transistor radios. But in the mid-'70s, they implemented the heavy and chemical industrialisation plan, which was very much copied from the old Soviet-style industrialisation plan. They said we are going to develop automobile, steel, shipbuilding, electronics, chemical and a couple of other industries, so that ten years later these would become the engine of our economy – because we had basically exhausted the possibilities in things like textiles and plywood, and so on.

BT: They imported the raw material?

H-JC: Yeah, they imported raw material. In the beginning, they imported machines. In the beginning, they had no pretence that we could do it all on our own, but they had at least developed a plan to raise what is known as the [capital goods] localisation scheme.

When they first started, they basically built copies of Ford and Fiat, using the multinational companies. But in the mid-'70s, they said "we are going to design our own cars" – and the government actually cancelled the licence of one or two companies that failed to come up with [their] own model. And, of course, designing your model is one thing, but 65 percent of your parts and components had to be imported.

BT: This is last-stage assembly?

H-JC: Yes. But by the late 1980s, they localised all the parts, including the engines.

BT: Some books about South Korea's development claim that last-stage assembly meant that you had no research and development. How did you develop R&D capacity?

H-JC: Those things were written in the early days. In the beginning, yes, you started like that. Take Hyundai, the famous car company. Their first model, called Pony, was designed by the Italian designer Giugiaro, and 70 percent of the parts had to be imported. But the difference is that they did not stop there.

The government put pressure on them and gave them financial support, and the companies also accepted that this was what they needed to do. In the beginning, they could barely manage to put a car together. But they kept investing in their R&D capabilities and, by the late '80s, Hyundai developed its own engines. There are only seven countries which produce their own car engines: the US, Germany, Japan, Sweden, France, Italy – and Korea.

BT: How did the *chaebols* come into existence?

H-JC: These were relatively small companies, but a lot of them grew through state support in the '60s and '70s. One interesting thing was that, even while they were helping these *chaebols*, the state made sure that they were ultimately tested. The government put a lot of pressure on these companies to export, because export gives you foreign exchange with which you can buy more advanced machines and technology licenses. Another important role that export played, in Korea and other East Asian countries, was to give the government some kind of – well, relatively – objective criterion to judge these companies' performance. The government ruthlessly reduced the subsidies and other support that it was giving to failing conglomerates. In the '60s and the '70s: if you are doing well, you grow 50 percent per year because the government then really backs you. If you are not doing well, you disappear in five years, because they are not going to help you.

BT: What is the link to authoritarianism? Would you say it was an authoritarian government, and is this an essential ingredient of the development process?

H-JC: No, I don't think so. In the particular political context of South Korea or Taiwan in the 1950s, 1960s and 1970s, with the Cold War hanging over them and no kind of progressive left-wing alternative being allowed, I think that was probably the only feasible solution.

But there are other kinds of developmental states in other parts of the world, which were run on the basis of democracy. France used a model that was very similar to that of South Korea. They had a planning commission, the government controlled half the banking sector and they intervened in all kinds of industries. Also, the Scandinavian countries. In some ways, they were very different. They had left-wing welfare state hegemony, which you didn't have in East Asia. In their own ways, they were also developmental states – in the sense that the government had a long-term vision and tried to engineer structural changes – and these countries were more democratic than anyone else in the world. I don't think that a developmental state or selective industrial policy is possible only in an authoritarian context.

BT: There was a lot of labour unrest in Korea?

H-JC: Yes.

BT: Now, the fact that labour was controlled quite vigorously, would you say that was an element of success, or not?

H-JC: In the earlier period, it probably was. In the '60s, these countries, including Japan, relied heavily on very low margin, low-tech, labour intensive industries. So, yes, if wages rose too fast in those industries, they would've had trouble.

But I think that phase really ended in Japan by the end of the '60s, and in Korea and Taiwan by the end of '70s. By then, they were competing on the basis of innovation and technological competence. Put it this way: most of the companies didn't have to squeeze the last drop of blood from their 17-year-old female worker.

Volkswagen South Africa's plant in Uitenhage, Eastern Cape is the largest vehicle factory in Africa"

BT: How relevant is all this to South Africa?

H-JC: At one level, South Africa is not South Korea, it's not Japan, and so you cannot directly import the models from these countries. And you don't necessarily want to absorb the negative aspects of those experiences. But, at the same time, I think it is very helpful for South Africa to look at these experiences, because it really gives you some interesting ideas about the importance of long-term vision and the need to invest in capability-building.

Protection creates a space in which you can raise your industries, but it doesn't give you the solution. The solution is developing your productive capabilities by investing in machines, education, infrastructure, and research and development. The exact areas and the exact manner in which these things have to be done depend on the country. But all of the other countries have done it in different ways, so looking at many different experiences gives you some idea of what works and what doesn't work, and what might work in your own context.

I think what would be *more* useful for South Africa is to look at countries like Sweden and other Scandinavian countries, because they have quite rich natural resource endowments [and] strong labour movements. These things you cannot find in East Asia. While you can draw some useful lessons from East Asia, you need to look at countries like Sweden, Norway or Finland for more direct lessons, because your conditions are more similar. It doesn't mean that East Asian experiences are irrelevant: at a relatively abstract level, you can extract some principles.

BT: I like your phrase: "Protection gives you space; it is not a solution". This is very important, because too many people have an ideological resistance to protection. In South Africa, there is a belief that protection is some kind of communism.

H-JC: My new book, *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism* (Random House, 2008) is a popular book, so I tried to explain everything in a user-friendly way. I explained the importance of protectionism by talking about my little son.

Tongue in cheek, I say, "I have this six-year-old son who basically lives off me. I pay for everything: education, lodging, food, healthcare." And then I get thinking, "Well, why can't he work? Millions of children work in Africa and poor parts of Asia and Latin America. Not only will this save me money, but it will make him a good person, because he'll be exposed to competition from day one and he has to shape up and remain efficient." Then I go on to say, "Of course, I don't do this. Because if I invest in him for another in 12 or 15 years – he's quite a clever kid – he can become a nuclear physicist or a brain surgeon." Of course, he could turn out to be a total waste of time, but I can be one hundred percent certain that if I make him quit school at the age of six, he will never become a productive person.

BT: (laughs) Right.

H-J C: Protectionism is like that. It creates the space in which you can invest in your child or your industry so that they can build up their capabilities. Those capabilities are eventually the ultimate determinants of what you are going to be. Protection is a means, not the end. A whole lot of people think that if you protect something, you have to protect it forever. In the book, again going back to the example of my son, I say it *is* wrong to make a six-year-old child work, but it is also wrong to subsidise some guy who is 45 years old.

BT: Can I turn to the South African problem of a dual economy? Now, Korea was a poor country, there were poor peasants and there was a bit of industry, but surely there was also dualism there.

H-JC: Absolutely.

BT: Now, you cannot depend on the first economy growing to the point where it takes care of everybody. What happened in Korea and what is your international experience? How do you overcome dualism?

You have to break out of this almost paralysis, which is binding you to become bean-counters.

H-JC: My view is that you can only overcome dualism if your first economy grows fast enough. Well, it's a bit more complicated than that.

In Japan, in Korea, in Taiwan, they could not implement citizenship-based welfare states of the Scandinavian kind because of the Cold War ideology, which thought that anything that involved welfare was communist. They had to provide a lot of targeted protection. For example, Japan had this "large store law". It said that if you were going to build a shopping plaza more than a certain floor size, you had to get consent from all the small shops in the area. This discouraged the emergence of large shopping malls. They protected small shops that way. And they gave very high agricultural protection. There was that protective element. But the younger generation of the working class, who had decent education, were absorbed by the ever-expanding first economy.

BT: If you take the South African economy, the prospect of the first economy growing at such a rate that it will take care of half the population is very unreal. And it's not the only country in the world like that. In China, there are hundreds of millions of people in the second economy. Is there anything we can do? Or do we accept welfare state provisions as the only solution?

H-JC: No, no. One thing you need to do is to build more domestic linkages, internally. When I said people got absorbed into the first economy, what I meant was *not* that everyone got a job with Samsung. But these guys have tens of thousands of subcontractors and people get jobs with those small companies.

BT: Do the small companies get subsidised?

H-JC: No.

BT: So they survive on the basis of procurement from the big companies?

H-JC: Yes. Some of them might be in a particular segment of a broader industry that the government is trying to promote, and they could get some subsidy, but generally, they have to rely on procurement by the large firms.

BT: Is there any law forcing the big companies to procure locally as opposed to buying externally? We buy components that are coming from overseas.

H-JC: Of course. There used to be. Every time, when you had foreign investment, you had an agreement about localising the parts. Even the multinational companies had to constantly raise the proportion of parts and components that they bought from the local producers. And when it came to domestic firms, the government told them that you have to *prove* that you cannot get it locally before you can import.

BT: Our minister would argue that that sort of model leads to a lack of competitiveness, because it's favoured treatment.

H-JC: Once again, the important thing is that, when you do that, you need to do other things to raise the capabilities of domestic firms. You give them some subsidies, and you set up public training institutes which will produce skilled labourers. Japan had a law forcing the large companies to provide a certain amount of data, R&D and training and other supports to the subcontractors.

BT: So you would recommend that, in South Africa, which is a reasonably industrialised country, the government take steps to ensure that components are bought locally?

H-JC: Your ministers are worried, sure. You can't be overly ambitious. You can't do it overnight. So you do a realistic assessment of what could be procured locally without hugely compromising your internal competitiveness, and probably come up with figures like – I don't know – 40 percent?

BT: That's high!

H-JC: But then you set up a plan to say that, in ten years, we are going to make it 90 percent. And to make that happen, we are going to provide R&D support or educational or training support and give subsidy for buying new machines. I mean, that is how you have to do it. Almost by definition, from today's point of view, your minister's right. Trying to buy everything from local companies will make your exports completely uncompetitive. But that is very different from saying that you should keep this position for the next 20, 30 or 40 years.

BT: It requires a great deal of careful analysis and planning.

H-JC: Why shouldn't the government do it? The private sector does it all the time. Does anyone go into new business without doing careful market research and collecting the necessary information? Of course, the government cannot do these things single-handed, but that's where you need government-business dialogue.

On the other hand, you don't completely trust what the private sector says, because they'll present things in a way that makes their life easier. So you need some independent research capability to judge whether these guys are really giving the right picture, but you have to accept that a lot of detailed information has to come from the private sector. There's no way the government can collect this information and process it in time.

BT: We are heavily dependent on imports of luxury goods. South Korea has limitations on the import of luxury goods?

H-JC: Yes, but not anymore. In the old days, there was – both in Japan and Korea – what can only be described as draconian control.

BT: Really. Would you recommend luxury goods controls here? We have a trade balance problem.

H-JC: Absolutely. Given the way that history has developed here, probably you cannot have the same kind of draconian control you had in South Korea or Japan. For example, until the mid-1980s, importing foreign-made cars in Korea was completely banned.

BT: Our shopping malls are full of digital everything…

H-JC: We have completely different starting points. You cannot expect South Africa to be Japan or Korea. But there must be some degree of control you can impose.

Whenever I talk about the success of Japanese industry, I like to compare it with that of South Africa and Brazil. I put it this way: in the 1960s, the Japanese couldn't build a decent car. In 1958, Toyota tried to export its first passenger car to the US, and it was a total flop. They had to withdraw the product. My point is that, in the late '50s and early '60s, both South Africa and Japan could produce only rubbish cars. But the Japanese attitude was: we can only produce rubbish cars, so we will drive around in rubbish cars. But in the meantime, we'll work hard, and then we can compete with BMW – which is what they are doing now, with the Lexus and all those luxury cars. The South African or Brazilian attitude was: we can only build rubbish cars? But we want BMWs today! We want Volkswagens today! How do you do it? You invite those guys. They don't come? Okay, give them 300 percent protection.

I think that there's a very important role that luxury consumption control can play. Although, once again, one has to be realistic about how much you can do here, I am sure there is some level of control you can impose that won't lead to riots by bankers. (laughs)

BT: Finally, is there anything you like to say?

H-JC: I first visited this country in 1991, when the end of apartheid was announced. There was this big conference – I think it was jointly organised by the ANC and the National Party government. Walter Sisulu gave the dinner speech and everyone was there, from all the countries you could think of. As a very young faculty member, I was truly lucky to be invited to that. Since then, I have been coming quite often. (Actually, there was a period from 1999 to 2005 when I never got an invitation, because in 1998 I brought a report critical of key aspects of the South African industrial policy.) But, having been to this country close to ten times over a 17-year period, I get so angry when I come here. Because this is a country with so much potential, so much natural resources, so much human capabilities, so many well-constructed institutions and so many capable organisations. I think the people here are – "cautious" is an understatement – they are somehow paralysed and do not want to do anything that even runs *this much* risk.

I don't know. Maybe, as a culturally impatient Korean, maybe I am asking for too much, but I think that this country could achieve a lot more. It *has* the capabilities. You have to break out of this almost paralysis which is binding you to become bean counters: "What is our budget deficit? What is the inflation rate? Is it 3.2 percent or 3.6 percent?" You have somehow become locked into this mentality, and that way you will never achieve large-scale structural transformation.

I really urge this country to be more bold, more enterprising, more challenging.

Economic debate:

The heart of the matter

By **Thabo Mbeki**

From the opening address of the President of South Africa to the Annual World Bank Conference on Development Economics (ABCDE), Cape Town, 9 June 2008

Almost by definition as an African politician, especially because I represent desperately poor communities that absolutely cannot lift themselves out of poverty without the assistance of the rich countries of our universe, I have an obligation to implement the advice of those without whose support my people cannot achieve progress, and the necessary advance towards achieving the celebrated Millennium Development Goals (MDGs).

In the advice I get, we are told that we must:

- limit state intervention in the economy, to expand individual choice as part of the process of the great flowering of open democratic systems and the attendant and resultant putative exponential growth and development of the economy
- more broadly, aim to build a minimalist state which should focus on providing such public goods as the protection of life, liberty, property and the environment, leaving all else to the market, except to the extent that the state must intervene as a regulator to correct the imperfect functioning of the market
- create maximum space for domestic and international entrepreneurs to invest and make profit, understanding that this will release the immanent national energies necessary to create the wealth needed to achieve the objectives stated by the president of the World Bank, Robert Zoellick: "to overcome poverty, enhance growth with care for the environment, and create individual opportunity and hope" (cited in Olters 2008)
- trust and follow the advice we will get from "good advisers and technical experts, which good governments would then implement for the good of society" (World Bank 1997), provided that what the advisers and experts advise is consistent with the preceding prescripts
- always bear in mind that, given the fact of globalisation, we would fail to attract the foreign direct investment we desperately need, especially because we are too poor to generate the investment capital we require to achieve the required rate of growth, unless we abide by the rules set by the international capital markets and recognise the fact that we are competing with other possible investment destinations
- take into account the fact that the overwhelming bulk of investible capital in the world economy is privately owned. Foreign investment for growth and development will therefore not come from overseas development assistance funds, but from private investors whose central goal is not the understanding

- of unique national public imperatives, but identification of profitable business opportunities
- above all, we must take into account the fundamental demands of the global economy – privatise, deregulate, open up to free trade!

I am confident that the development economists and other participants present here today understand very well that the prescripts I have mentioned do not fully address the overall theme of this conference, "People, politics and globalisation", and its sub-themes, listed as the challenges of "globalisation, investment and growth", "human development for equitable growth" and "the political economy of shared growth".

I am convinced that gathered in this hall today are thinking human beings who will help us the better to understand what we need to do to liberate ourselves from poverty and underdevelopment, refusing to be influenced by propaganda, supposedly universal truths, illusions born of smoke and mirrors, and intimidation.

CRITICAL CHALLENGES

To have any meaning, development economics must relate not to the logical integrity of theoretical paradigms, important as this might be, but to the central task to achieve human development. As you know, there are some immediate and critically important challenges we face as a country and continent, and various questions you must help us to answer in this regard.

One of these is: what interventions should we make to respond to the high and rising food and fuel prices? Given the unavoidable inflationary impact of this, which will inevitably reduce the standard of living of especially the poor, what immediate medium- and long-term measures should we institute, including agricultural policies that would guarantee long-term affordable food security?

In this regard, what contingency measures should we take to adapt to the consequences of climate change? How much reliance should we place on the possibility to implement the Comprehensive African Agricultural Development Programme (CAADP), and thus insulate Africa from the threat of food shortages and unaffordable food prices? Will the outcomes of the recent FAO Global Summit in Rome help to address these issues?

Another one of these questions is: how long will the commodity boom last? How should we, as Africans, take advantage of this boom to guarantee

ourselves sustainable development, even when commodity prices decline?

What practical measures should be instituted globally further to integrate Africa into the world economy, other than as a producer and exporter of raw materials, including the attraction of investments that would enable Africa to export greater volumes of manufactured, value-added products?

In the event that the global economy experiences a significant slow-down that negatively affects African exports and investment flows into Africa, what measures should we take to respond to this contingency?

All of us recognise the critical importance of the need to build the necessary human resource base to drive the process of sustainable African development to which we are all committed. We must therefore pose the question: what should be done to achieve this objective?

We also accept that, as can easily be demonstrated with regard to other regions in the world since the end of World War II and earlier, Africa needs the support of the developed world to achieve the "take-off" it requires. What should be done to effect this "development partnership", which would include overcoming the irrational but persistent "Afro-pessimism"?

What should be done to implement the now universally accepted vision and programmes of the New Partnership for Africa's Development, NEPAD, which is fundamental to the realisation of the MDGs as they relate to Africa?

HUMAN DEVELOPMENT

We have all observed the recent exciting growth trends in Africa. For some this may appear to be the result of the passing impact of a commodity price boom. These may expect the African economies to slow down and run into difficulties at the end of this boom, much as many did after the boom of the 1960s and early 1970s, including South Africa. But I am certain that those of us who have looked more closely at the development of Africa would have seen that there is evidence that the current opportunity to benefit from the commodity boom will not be frittered away as happened before, at least not by all countries.

Necessarily, development economics must be an integral part of this process. I trust that the fact that the ABCDE conference meets in Africa for the first time will inspire all the participants to take it as their special obligation to intervene in the African development process to add impetus to our continental drive to end our condition as the wretched of the earth.

Jan-Peter Olters, the World Bank representative in Montenegro, has written that "the World Bank's emphasis on social inclusion – apart from reasons valid in themselves – stems from global experiences that social tension and large income inequalities lead to lower rates of potential growth, weaken political cohesion, contribute to environmental degradation, and add considerable costs to societies in terms of foregone opportunities." (Olters 2008)

The African, and perhaps global, development challenge is about poverty eradication, the reduction of income and other inequalities, strengthening social inclusion and political cohesion, the reduction of environmental degradation, and improving the capacity of individuals and society to take advantage of all opportunities to achieve development.

The immediate reality is that all of us, whatever our social circumstances, know that the poor are knocking at the gate. If this gate does not open, because we who have the key are otherwise involved, the masses will break down the gate. They will do this to challenge us to join them practically to answer the question: what should be done to give effect to the human dignity that is due to those whom the modern social order, in all countries, defined as the wretched of the earth?

I believe that this is the fundamental question this conference must strive to answer.

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REPLY TO DEBATE ON THE PRESIDENCY DEPARTMENT BUDGET VOTE

12 June 2008

President Thabo Mbeki: The Hon Ben Turok correctly addressed yet another important pillar of the construct we need, to help achieve this fundamental social transformation. In summary, he said we must, while further entrenching our democracy:

- construct an efficient and effective developmental state
- ensure that this state has the necessary capacity to carry out meaningful national socioeconomic planning, without creating a command economy
- ensure that this state is able to mobilise and lead the whole of society to address the challenges of poverty and underdevelopment on a sustained basis
- build an effective and functioning partnership between this state and the national business community
- mobilise the masses of the people into a united, conscious movement for sustained development, and
- democratically determine our own growth path, refusing to be trapped into neo-liberal propositions about economic development which, historically, have absolutely no provenance.

A correspondence between Finance Minister Trevor Manuel and *New Agenda* editor, Ben Turok MP

EXPORTS ARE KEY TO UNLOCKING GROWTH IN JOBS

By Trevor Manuel (*Cape Times*, 7 July 2008)

Governments all over the world must, from time to time, revisit their policies, see what is working, review what is not working, and plot a path going forward with the aim of preserving what is not broken and changing what is. Over the next 12 to 18 months, South Africa has an opportunity to do just that – take stock and set our compass for the next five years. Economic policy should similarly be subjected to review.

This article is a contribution to the debate on the future direction of our economic policy. In particular, it deals with South Africa's macro-economic policy stance. The African National Congress's (ANC) *Strategy and Tactics* document, adopted at the Polokwane conference last year, reaffirms the ANC's commitment to macro-economic stability. The ANC recognises that a stable macro-economic outlook is a necessary condition for long-term growth, employment creation and redistribution. However, while macro-economic stability is a necessary condition for growth and development, it is not sufficient. There are myriad other economic policy areas that also affect progress in fostering inclusive growth.

Our biggest failure, and hence our biggest challenge for the future, is job creation. While employment has expanded, this expansion has not been at the pace required to reduce unemployment and poverty dramatically. We have failed to create large numbers of jobs for young people leaving school with matric, the category for which unemployment is highest. Unless we remedy this problem, many of the other objectives that we hold dear are not likely to be met.

It is not our policy that is at fault, but our poor implementation.

Recent work by the International Growth Advisory Panel, chaired by Ricardo Haussmann, and the Commission on Growth and Development, chaired by Michael Spence, provides useful resources that can and should be drawn on in setting our policy stance for the decade ahead.

The findings of the commission are indicative of our challenges. The methodology of the report by the commission examines what are called "growth episodes". A growth episode occurs when the gross domestic product (GDP) of a country grows by more than 7 percent a year for more than 25 years. Only this type of growth over a lengthy period has been demonstrated to make a meaningful impact on poverty and on the quality of life of the poor. Without such growth, no developing country has been able to reduce poverty significantly over just one generation.

Some facts from the report are particularly worth noting. There have only been 13 countries experiencing these growth episodes in the world. Twelve of the 13 grew by exploiting international trade. In other words, they grew pursuing a conscious export-oriented strategy. All 13 countries took measures to raise their savings rates. These measures differed from country to country, but include high interest rates, forced savings and prudent fiscal policies.

A hallmark of these growth episodes is a consistent application of macro-economic policy over a long time. While macro-economic policy has an impact on the performance of many aspects of the economy, from employment to investment, from interest rates to capital flows, there are essentially two instruments of policy: fiscal policy (how government manages its finances) and monetary policy (how money is supplied to the economy).

The world of micro-economic policy is more diverse, covering trade and industrial policy, education, social security, labour market policy, transport policies, competition policy and approaches to regulation for products where there is a natural monopoly or a state monopoly.

Our concern is with growth and development – that is, economic growth of the type that broadens opportunities for the poor. Economic growth is not an end in itself and we all would agree that growth is a necessary but not sufficient condition to drive the kind of development we seek. Our debate is about the best mix of policies to get there.

In many areas of micro-economic policy, it is not our policy that is at fault, but our poor implementation. Suffice to say that this poor implementation hobbles our economic and social progress and may in itself prompt a re-examination of policy. None of us can be satisfied with our performance in the implementation of various aspects of micro-economic policy, and we must recognise clear governance failures in the execution of some of these policies.

Haussmann describes the relationship between macro-economic and micro-economic policy as that between various players in a symphony. Macro-economic policy is the percussion section – the big and noisy sounds that, on their own, sound awful. Micro-economic policy is the smaller, more intricate and delicate sounds, the parts that are actually most pleasant to listen to. The role of macro-economic policy in this symphony is to provide the timing, sequencing and tempo for the beautiful sounds of the orchestra to come through. Without such co-ordination, the little sounds of micro-economic policy would not make for very pleasant listening either.

The objective of macro-economic policy is to provide a sound and stable platform for high rates of growth over a long period. This, in turn, enhances employment opportunities and generates the resources for the state to intervene in society in the interest of the poor.

Critical to the achievement of high growth over a long period is higher levels of investment.

One of the interesting issues emerging from this is how we are going to finance this investment that will lead to higher rates of growth.

WESTERN ECONOMIC POLICIES WILL LEAVE SOUTH AFRICA MARGINALISED

By Ben Turok (*Cape Times*, 25 July 2008)

Trevor Manuel's impassioned plea for "a thorough debate on economic policy" is most welcome, provided the important issues have not been determined in advance.

In the London *Financial Times* (31 May 2008), a major article about Manuel's policies was headed "Manuel rejects rethink on economy". The article said Manuel "gave an impassioned defence of his macro-economic policies: in particular, running a budget surplus". Manuel has repeatedly defended "fiscal prudence", which is the successor to "budget austerity" of the Growth, Employment and Redistribution (GEAR) decade. He has insisted on pursuing the narrow objectives laid down by those who follow the mantras of the International Monetary Fund (IMF), even if with minor variations. And the real economy is suffering from the consequential slowdown, as has been the experience of all developing countries that toed their line.

Ha-Joon Chang, the renowned South Korean Cambridge-based development economist, sets out the arguments in his new book, *Bad Samaritans*. He writes: "Upon taking power from the apartheid regime in 1994, the ANC government declared that it would pursue an IMF-style macro-economic policy. In order to maintain price stability, interests rates were kept high" at a huge cost to growth and jobs. "Few firms could borrow to invest" and the investment rate fell from 20-25 percent to about 15 percent.

He points out that South Africa has an official unemployment rate of 26-28 percent, which is "one of the highest in the world". He concludes that monetary policy that is too tight and inflation-focused lowers investment, and hence slows down growth and job creation.

Dismissing neo-liberal economics, which President Thabo Mbeki recently called a "trap", Chang argues that IMF structural adjustment programmes do great damage to developing countries: "Low inflation and government prudence may be harmful for economic development." He argues that the IMF and World Bank have for too long exceeded their mandate through "mission creep", which has "produced slower growths, more unequal income distribution and greater economic instability".

The question for us is, are we still paying too much attention to the orthodoxies advanced by the international agencies and their followers located in US institutions whose interests are not the same as those of the developing countries?

Manuel states that "our biggest failure is job creation". Precisely, and that is why we need to look at the whole spectrum of economic policy and not be quite so fixated on monetary policy. Macro-economic stabilisation policies cannot be seen in isolation as they impact on a range of economic policies such as trade policy, investment, subsidies and the rest.

In his book, Chang rejects the dominant orthodoxies accepted in most countries, as well as by some leading individuals in South Africa.

Chang visited South Africa in June this year and said we are too cautious. He urged us to "break out of this almost-paralysis which is making you bean-counters who ask: What is our budget deficit? What is the inflation rate? Is it 3.2 percent or 3.6 percent? You have become locked into this mentality, and that way you will never achieve large-scale structural transformation." (see Chang interview, this issue)

Manuel complains that we are "less competitive than many of our trading partners".

There is undoubtedly a fundamental difference of perspective.

In *Kicking Away the Ladder*, Chang argued that the United States and the United Kingdom industrialised behind protectionist policies; then, having created powerful industries, they advocated free trade for the world economy. Chang's main critique is against this theory of free trade, which, he argues, is designed to advantage the strong economies to further penetrate developing countries. "Trade helps development only when the country employs a mixture of protection and open trade, constantly adjusting it according to its changing needs and capabilities."

The point is that consumers may benefit from cheap imported goods, but the capacity to industrialise suffers. Even keeping foreign companies and investment out may be good for the country in the long run.

Of course, the IMF and its associates oppose these views. Manuel insists that our macro-economic stance has been, and remains, correct. He blames poor implementation for our woes. There are many weaknesses in that area, for sure, but tight financial policies create the wrong environment as well.

Let us use our collective brains as South Africans to solve our problems and pay less attention to the gurus who have been groomed in the conservative economics that serve the rich countries so well, but leave us marginalised forever.

We must find our own balances, and free our own minds of dogmatism.

GROWTH IS NOT SUSTAINABLE WITHOUT MACRO-ECONOMIC STABILITY

By Trevor Manuel (*Cape Times*, 29 July 2008)

In his letter to the editor, Ben Turok makes certain strange assertions about economic policy. Regrettably, Turok leaves the reader entirely uninformed about the policy options that he advocates to deal with the problems of unemployment.

I have tried to understand the thread of his argument and can see that he quotes Ha-Joon Chang at some length in an attempt to debunk the notion of macro-economic balances and that he restates that he will not agree with anything that he adjudges to emanate from the IMF or the World Bank. Obviously, this is a strangely fixated style of argument and exceedingly limited in its ability to find solutions.

Let us turn to what may be the core of his argument: "[A]nd that is why we need to look at the whole spectrum of economic policy and not be quite so fixated on monetary policy." This is exactly what I had argued in my piece, but a point of fundamental difference is that we should abandon monetary policy and fiscal prudence. Monetary policy in South Africa has price stability as its objective and is drawn from a constitutional imperative (Clause 224(1)), inserted for good reason. Inflation erodes the living standards of all people on fixed income – inflation erodes the living standards of workers.

Workers are protesting on the streets against increases in food and fuel prices for the simple reason that these inflating prices destroy the hard-won gains of workers. If Turok does not see inflation as the enemy of workers here in South Africa, he should undertake a study tour of Zimbabwe and then know what the abandonment of monetary policy does to the poor.

His references to fiscal rectitude are similarly misplaced. In the absence of sound fiscal and monetary policy, there will be absolute chaos. Avoiding this chaos has been central to ANC policy decisions – most importantly, the RDP document, which states: "it is clear that government policy and mechanisms of raising finance are crucial to the success of the RDP. If they were to cause excessive inflation or serious balance of payments problems, they would curtail growth and cause the RDP to fail". (6.5.3) And "the existing ratios of deficit, borrowing and taxation to GNP are part of the macro-economic problem. In meeting the financing needs of the RDP and retaining macro-economic stability during its implementation, particular attention will be paid to these ratios." (6.5.7)

The issue of macro-economic balance is well founded in ANC policy documents. The ideas which Turok espouses have no foundation in ANC policy documents.

In the recently published report of the Commission on Growth and Development that examined the factors that provided for sustained high growth, 13 countries were identified. In each case, macro-economic stability was seen as a key determinant of success.

The most successful economy of the current milieu is undoubtedly that of the People's Republic of China. Macro-economic balance is a key determinant in China, which the Chinese relate back to the central Confucian tenet, *zhongyong*, which means "the golden mean, the essential balance". To this, successive leaders Mao Zedong, Deng Xiaopeng, Jiang Zemin and Hu Jintao have added four further elements: *shishiqiushi* ("finding truth from facts"), *jiefangsixiang* ("freeing the mind of dogmatism"), *yushijujin* ("adapting to the changing environment"), and *hexie* ("harmony") – all of these reflect the essential *zhongyong*.

This experience contains valuable lessons for all of us. They speak of a Chinese application of certain policy norms. We must find our own balances, and free our own minds of dogmatism, especially of that which Turok espouses.

Finally, I had attempted to explain the interrelationship between macro- and micro-economic policies. Turok accepts from this that we should "look at the whole spectrum of economic policies". We have said that macro-economic balances are necessary but not sufficient to provide the balanced growth and development that we seek.

The huge gulf between Turok and the available evidence appears to be in his belief that you can attain sustainable growth and development in the absence of macro-economic stability.

I am afraid that, on this score, he is so very, very wrong.

EXTREME CAUTION

By Ben Turok (*Cape Times*, 5 August 2008)

I greatly appreciate Trevor Manuel's response to my letter; we all know how busy he is.

Reading again his original article and his response to me, I am intrigued to find that I am in accord with so many of his ideas. Yet there is undoubtedly a fundamental difference of perspective.

Before dealing with that difference, let me protest that I was not as dismissive of orthodox views as he suggests. I have never argued that we "abandon monetary policy and fiscal prudence', nor advocated the "absence of macro-economic stability". Nor am I bound by "dogmatism". Indeed, the essence of my argument is that the IMF and World Bank and their followers in the neo-liberal tradition have damaged Africa with their "one-size fits all" prescriptions, and their unwavering insistence on the primacy of stabilisation above all else. As Trevor Manuel knows, I spent many years working in other African countries during the heyday of structural adjustment conditionalities and know first-hand the consequences of that.

I should also say that the reason I quoted Ha-Joon Chang extensively is that this debate about *stabilisation first* is international, as development economists from the South battle with the intellectual hegemony of US-inspired economists to free us from positions that benefit the developed countries.

It is also notable that President Mbeki did precisely that only a few weeks ago, when he attacked "market fundamentalism" at the World Bank conference in Cape Town, and when he agreed with me in a parliamentary debate, saying that we should "democratically determine our own growth path, refusing to be trapped into neo-liberal propositions about economic development, which, historically, have absolutely no provenance". I wonder how far Trevor Manuel supports those sentiments.

Manuel quotes the RDP document in support of macro-economic balances, but we can also quote the Freedom Charter, which espouses "sharing" of the "country's wealth". This is particularly necessary when the inequalities of income and wealth in South Africa are becoming the highest in the world. We need also refer to the discord in the ANC when GEAR was introduced – not so much because it sought to reduce our domestic debt, but because some of us feared that "macro-economic stabilisation" would displace our fervent hopes of a genuine "people-centred, people-driven" development decade for our country, which incidentally we have not seen.

It is worrying that, despite a steady but modest rise in growth rates, we have record unemployment levels and serious poverty problems. As the World Bank says in its 2007 Country Partnership Strategy: "poverty levels have not been reduced significantly… and unemployment remains high". Growth is a necessary condition, as Manuel says, but it must be accompanied by a serious development programme across the board. Growth alone will not do the job. If it could, the people of oil-rich countries like Nigeria and Angola would be the most developed in the world. Neither growth nor wealth "trickles down" without a clear directive to redistribute the nation's resources and assets.

So let me reiterate: it was not my intention to rubbish Manuel's achievements. He is an outstanding minister, as is acknowledged everywhere. But perhaps he has become too cautious and risk-averse in the interests of macro-economic stabilisation.

I believe that Polokwane, like the June 2007 ANC policy conference, was about a shift in the balance between fiscal and monetary "prudence" and the need for a new programme of economic *expansion*, and not just growth, so that many more of our people become productive. The state must take the lead in this and raise our national consciousness to become *more economically productive and less dependent on welfare*.

I suspect that Trevor Manuel actually supports this position, but I wonder whether he still has an open mind, or is trapped in the mindset of Western economic orthodoxy.

Competition law and policy:

Why is it there? What does it do?

By **David Lewis**

The author is chairperson of the Competition Tribunal of South Africa

In 1990, there were 14 national anti-trust authorities in the world, all to be found in developed economies.[1] A little over a decade later, there were over a hundred, with the vast majority of these new agencies established in the developing and transition economies. Recently, both China and India passed competition statutes and began creating the agencies necessary to enforce their new laws. This period also saw many of those countries with long established agencies strengthening their anti-trust statutes, agencies and enforcement practices.

Nor was it only at the national level that anti-trust enforcement came to the fore. There was a serious attempt to include a competition instrument in the Doha round of trade negotiations. The regulation of cross-border mergers and the pursuit of international cartels – largely accomplished through co-operation between national competition agencies – are, by now, commonplace events. The institutionalisation of competition law at the multilateral and international level is also proceeding apace, the best example being the International Competition Network (ICN) in which South Africa actively participates and which comprises the vast majority of competition agencies across the world. The ICN functions as a forum for national anti-trust agencies to exchange experiences and develop best practices in law enforcement.

Why this dramatic surge in interest in competition law? There are two words, not often associated with each other, that best describe the background: liberalisation and democratisation.

THE ROLE OF LIBERALISATION

Competition law is part of an economic reform process characterised by the lowering of international trade and investment barriers, as well as the lowering of barriers to the effective operation of domestic markets.

As is well known, the process of liberalisation proceeded rapidly. In international markets, this took the form of the lowering of domestic tariffs and other trade barriers as well as the lowering of barriers to cross-border investment. In domestic markets, it meant the privatisation of state owned enterprises (SOEs) and what is colloquially referred to as "deregulation": an array of diverse measures ranging from the removal of regulations impeding the entry of new firms to attacks on labour-market and environmental regulations.

One serious shortcoming of the process and substance of liberalisation is that it outstripped the development of the rules and institutions necessary for the effective functioning of this new liberalised world economic order. For example, on the social front, the safety nets necessary to cope with the massive resultant dislocations in the labour market were generally not put in place. On the broader economic front, privatisation and deregulation proceeded in advance of the rules regulating participation in these newly liberalised markets.

The absence of these rules frequently undermined the avowed purpose of liberalisation itself. Hence, while important elements of deregulation were designed to facilitate market entry, established dominant firms in concentrated markets were able, in the absence of rules governing their conduct, to utilise their market power to forestall the entry of new competitors. Or SOEs that were perceived, often with considerable justification, to be inefficient monopolies were privatised into unregulated markets, the upshot being – particularly in areas of "natural monopoly" like telecommunications – simply the conversion of publicly owned monopolies into privately owned monopolies, now unrestrained by any rules governing their conduct.

The internationalisation of production, trade and investment also resulted in significant corporate restructuring, largely by way of mergers and acquisitions that saw diversified firms specialising in core activities, a process which also contributed to increased concentration in many important markets. In short, even though the reforms were designed to reduce public-policy induced barriers to the effective functioning of markets, the absence of rules governing the conduct


Russell Roberts, © *Financial Mail*

of private participants in these newly liberalised markets severely compromised the development of competitive market structures and outcomes.

These shortcomings were most evident in the formerly socialist economies where comprehensive state control was dismantled overnight and frequently replaced by dominated markets whose participants were thoroughly unrestrained by any regulatory framework. The hardship that this generated for large swathes of the population was evident in the massive escalation of prices and the withdrawal of a range of services and products from those unable to afford these new "market" prices. On the other hand, the process was also manifest in the massive wealth rapidly accumulated by those who secured control of the newly privatised monopolies: the Russian "oligarchs" are their most graphic representation. These outcomes were apparent, in varying degrees, in most societies that experienced this process of unrestrained liberalisation.

REGULATING MARKET COMPETITION

The burgeoning of competition policies and laws in the 1990s constituted an important part of the public response to the unrestrained liberalisation that characterised the 1980s. However, it should be clearly understood that this response did not seek to turn back the clock and re-introduce pervasive regulations or to re-nationalise erstwhile SOEs. Rather, it sought to introduce rules to ensure that newly liberalised markets realised their broader social promise in the form of efficient enterprises producing quality goods at the lowest possible prices.

Competition law is designed to maintain and promote pro-competitive conduct in competitively structured markets.[2] This describes the overwhelming majority of markets for goods and services. Competition law does this by prohibiting certain forms of co-operation between firms active in the same market (for example, price fixing) and by prohibiting dominant firms from engaging in certain forms of conduct that have the effect of excluding competitors from the market or preventing entry by new competitors. These forms of conduct – *collusion* and *abuse of dominance* – are termed "anti-competitive conduct". Competition law also prohibits mergers that would undermine the competitive structure of the market in which the merger takes place.

Competition law is a subset of *competition policy*. Competition policy essentially determines the boundaries of direct state participation in the economy. Policy extends the boundaries of state involvement through economic regulation – for example, price control or licensing of entry – or it may engage in the direct provision of goods or services through an SOE. Conversely, policy can draw in the boundaries of state involvement by removing such a regulation or by privatising an SOE.

Increasingly, direct state involvement in production is confined to markets that exhibit conditions of "natural monopoly" – markets that, for usually technological reasons, cannot support the activities of more than a single firm, or where, whether for technological or social reasons, the state retains responsibility for licensing entry. In these markets, responsibility for critical competitive issues – for example, entry to the market and pricing outcomes – are then given to a dedicated sector regulator. An important mandate of a sector regulator is to simulate competitive outcomes in markets in which effective competition cannot occur: that is, to ensure that the regulated monopolies produce goods of a quality and price that would occur in a competitively structured market. In addition, the mandate of the regulator would characteristically include certain important social objectives, such as the provision of universal service. As new technologies undermine natural monopolies – again, telecommunications is a good example – more of these activities become subject to the ordinary rules of competition and so, potentially, to the jurisdiction of competition laws and authorities rather than regulators.

South African competition law enjoys popular and official support through its association with the democratisation project itself.

COMPETITION AND DEMOCRACY

While economic reform describes part of the general background for the rapid rise of competition law and policy, each country is characterised by particular historical, social and economic circumstances that greatly influence the form and practice of national competition laws and practices.

A little known fact is that South Africa has had a form of competition regulation in place since the 1950s. However, the rules were weak, as were the institutions established to administer them. On those rare occasions when the competition authorities attempted to assert themselves, they were simply overridden by government. One of the more notorious instances was the series of transactions through which South African Breweries and the Cape liquor interests divided the alcoholic beverages market, which had implications for the market structure that persist to this day. Although the predecessor to the current Competition Act criminalised price fixing and other forms of cartel conduct in the early 1980s, not a single cartel was prosecuted during the two decades this law was on the statute books. Accordingly, when the first democratic government decided to draft a new competition law, it chose to start with a clean slate rather than attempt to strengthen the inherited legislation.

The global economic reform process was reflected in South Africa in several major privatisations, commencing in the 1970s and continuing to this day, and also by a process of trade liberalisation in the 1990s. The introduction of a new competition law coincided with this period of global reform, but support for the robust application of competition law in South Africa was by no means entirely bound up with liberal economic reforms. It had long featured on the agenda of the ANC. Indeed, the Freedom Charter itself inveighs against monopolies, and all the major economic policy documents that emanate from the ranks of liberation alliance from the late 1980s – including the Reconstruction and Development Programme – explicitly supported the introduction of robust competition law.

Nor is this surprising. Highly concentrated markets and ownership structures, coupled with severely constrained entry for new, especially small, firms were widely acknowledged features of South Africa's industrial landscape. Moreover, these features were explicitly linked to racial exclusion. This virtually guaranteed that the democratisation process would require sanctioned intervention in concentrated markets through facilitating new entry and constraining the conduct of dominant firms. Contrast this with, for example, Indonesia, where the introduction of competition law was imposed as a condition for International Monetary Fund support. This is important, because it means that South African competition law enjoys popular and official support through its association, not merely with the hardships and divisions that frequently accompany liberalisation, but with the democratisation project itself.

This association between democracy and competition law is not unique to South Africa. In the United States, anti-trust law traces its origins to the great "trusts" or cartels that dominated oil markets in the early 20th century, and to a widely held perception that the their power not only overwhelmed prospective new entrants and consumers, but also the government. Lawyers and economists practicing competition law conveniently forget this incontestable fact when they seek to link it to a narrow notion of "economic efficiency".

At the turn of the 20th century, US anti-trust enforcers confronted and broke up the oil monopoly; in the middle of the century, anti-trust law broke up AT&T's telephone monopoly, and, at the end of the century it took on Microsoft, the dominant software producer. Anti-trust law still retains strong public support in the US, arguably because the periodic prosecution of notorious monopolies continues to link anti-trust law with support for the economically weak – both firms and consumers – against powerful economic interests.

THE COMPETITION ACT

In 1999, the new South African Competition Act (henceforth "the Act") came into force. While many of its core provisions reflect orthodox anti-trust concerns about economic efficiency, specific provisions reflect democracy's concern with protecting the weak from

The overriding of market forces will, albeit unintentionally, store up the kind of long-term problems currently experienced in our telecommunications and electricity markets.

the unrestrained power of the powerful, including confronting the peculiar features that the economy has inherited from our apartheid past. This is reflected in the stated purpose of the Act, which incorporates orthodox competition considerations (promoting "the efficiency, adaptability and development of the economy" and providing "consumers with competitive prices and product choices") alongside a number of other purposes seldom found in competition legislation. Reflecting South Africa's particular background, these include the promotion of employment, ensuring that small and medium-sized enterprises have an equitable opportunity to participate in the economy, and promoting a greater spread of ownership, in particular to increase the ownership stakes of historically disadvantaged persons.

The Act sets up three institutions: the Competition Commission, the Competition Tribunal and the Competition Appeal Court. The Commission is the body responsible for the investigation of mergers and the prosecution of anti-competitive conduct. It is also responsible for "advocacy", that is, for developing programmes designed to promote respect for competition rules within the ranks of government, business and the general public.

The Tribunal, an administrative body comprising lawyers and economists, is the adjudicator before which the Commission places its recommendations regarding the mergers that are notified to it, and before which it prosecutes anti-competitive conduct. In other words, the Tribunal decides whether to permit or prohibit mergers and whether conduct alleged to be anti-competitive contravenes the Act and, if so, what remedies to impose on transgressors. Appeals from Tribunal decisions are made to the Competition Appeal Court.

These institutions enjoy high levels of independence. Not only is there a strict institutional separation between the functions of investigation and prosecution (the tasks of the Commission) and the decision-making or adjudication function (the role of the Tribunal), but the Act makes no provision for political intervention in the decisions of the competition authorities. The Commission frequently solicits submissions from government departments and agencies in its investigations and government officials regularly appear before the Tribunal. While the Commission is required to forward merger filings to the minister of trade and industry to facilitate government submissions, decision-making in matters within their jurisdiction are the exclusive preserve of the competition authorities.

ANTI-COMPETITIVE CONDUCT

The Act covers the standard anti-trust concerns: anti-competitive conduct and mergers.

There are two categories of prohibited anti-competitive conduct. The first includes anti-competitive agreements between firms, including horizontal agreements between competitors and vertical agreements between a firm and its customers or suppliers.

Cartels – agreements between competitors – represent the heartland of anti-trust. The anti-competitive consequences of agreements between competitors that fix prices, allocate markets or rig bids are so conclusively established that mere proof of their existence is sufficient to convict. Complainants do not have to establish anti-competitive effect and the defendants are not entitled to present a pro-competitive justification of their conduct. The importance of restraining cartel conduct cannot be overstated. Some time back, the World Bank estimated that in developing countries alone the monopoly rent extracted by a small number of international cartels prosecuted in the 1990s totalled some \$20-24 billion per year – equal to nearly half of the annual development aid provided by developed to developing countries.

Secondly, the Act covers unilateral abuses perpetrated by dominant firms. These refer mostly to conduct preventing new entrants – "exclusionary" conduct – but also cover certain "exploitative" conduct, notably the charging of excessive prices.

Abuse of dominance is an extremely complex area of anti-trust. Firms generally attain dominance in their markets by producing better products at lower prices than their rivals. This is the very stuff of competition and a firm, even a dominant one, that achieves and maintains its dominance by producing better and cheaper mousetraps than its rivals should not have to fear condemnation by the competition authorities.

The difficulty arises from the exceedingly thin line between robust pro-competitive conduct and unlawful exclusionary conduct. Certainly both have as their objective the besting, even elimination, of their competitors. The competition authorities must ensure that their interventions protect competition and not competitors.

Our experience indicates that the likely impact of mergers on the public interest is less significant than often assumed.

Take, for example, a dominant firm's refusal to supply its product to a customer who wishes to use the product in its own downstream production or trading activities. This refusal may be rooted in commercial considerations – the seller may believe that the buyer represents a credit risk. Or it may arise because the seller believes that the buyer will use the product carelessly or even dangerously, in the process undermining the reputation, and hence the competitiveness, of her firm's product. In other words, the refusal to supply may be *pro*-competitive. On the other hand, the refusal may arise because the seller is attempting to leverage upstream market dominance in order to acquire power in the downstream market. In this case, the refusal may amount to *anti*-competitive abuse. In examining allegations of abuse of dominance, modern anti-trust thinking no longer relies on bright legal rules to distinguish pro- from anti-competitive conduct. This approach has given way to one that relies upon elaborate economic reasoning.

The competition authorities have actively confronted both categories of anti-competitive conduct, and the remedial powers available to the Tribunal are considerable. These include the power to interdict anti-competitive conduct and to order pro-competitive conduct – for example, to order a dominant firm to supply downstream firms. The Tribunal is also empowered to impose a fine on a firm found guilty of anti-competitive conduct or, under limited circumstances, it may break up a dominant firm through the imposition of a divestiture order.

The Commission has achieved considerable success recently in apprehending price-fixing and bid-rigging cartels in, among others, the markets for bread, scrap metal and pharmaceuticals. This has resulted in the imposition of substantial fines, considerable damage to the perpetrators' reputations and the departure of senior executives. Most significantly, these cartel cases have served to raise the level of public awareness and understanding of the purpose of competition law and the activities of the authorities.

Nor have abuses perpetrated by dominant firms escaped the attention of the competition authorities. Household names like South African Airways, Sasol and ArcelorMittal, to name the most prominent, have been successfully prosecuted before the Tribunal, with the excessive pricing case brought against ArcelorMittal ultimately resulting in the imposition of a fine of R691 million, the highest yet imposed by the Tribunal.

MERGERS AND COMPETITION

Merger regulation enables the competition authorities to intervene to prevent deterioration in the market structure. All mergers above a certain threshold have to be notified to the Commission. Those falling below a second higher threshold – "intermediate mergers" – are decided by the Commission, who may either prohibit or approve, with or without conditions, the proposed merger. In respect of mergers that exceed a third threshold – "large mergers" – the Commission makes a recommendation to the Tribunal which, after conducting a public hearing, determines whether the proposed transaction should be approved or prohibited.

The Act provides that the decision maker – that is, the Commission or the Tribunal – must determine whether or not a proposed merger is likely to result in a substantial lessening of competition. In addition, it must determine the merger's impact on the "public interest". The public interest factors specified in the Act essentially comprise a number of industrial and social policy considerations, these being the merger's impact on a particular industrial sector or region, on employment, on the ability of small businesses or firms controlled or owned by historically disadvantaged persons to become competitive and on the ability of national industries to compete in international markets. It is thus entirely conceivable that a merger that is determined to substantially lessen competition may nevertheless be approved because it impacts positively on one or other of the public interest factors – for example, an anti-competitive merger may be approved because the merging parties manage to establish that the merger will positively impact on black economic empowerment (BEE) or on exports. On the other hand, a merger that has no, or even a positive, impact on competition may be prohibited because it is determined to have a negative likely impact on employment. It is noteworthy that the competition authorities retain their exclusive decision-making powers even when balancing the competition and public interest objectives of the Act.

While the vast majority of mergers impact on neither competition nor the public interest, a small minority are likely to have a significant impact on competition and, on this basis, may either be prohibited or approved with behavioural or structural conditions. A behavioural condition may, for example, require non-discriminatory pricing or supply guarantees, whereas a structural condition may require that the merged entity divest itself of parts of the merged business in order to maintain the pre-merger competitive structure.

A number of important mergers have been prohibited because the Tribunal has concluded that they are likely to cause a substantial lessening of competition. This includes mergers in the furniture retail trade, in the liquid fuels market, in the telecommunications market and in the sports equipment retail market. There is little doubt that, but for our power to examine mergers, a significant number of key markets would have been considerably more concentrated than is presently the case.

Our experience indicates that the likely impact of mergers on the public interest is less significant than often assumed. It is possible that our public interest considerations have deterred firms from merging in circumstances where the merger is likely to lead to significant employment loss, although on several occasions we have approved mergers with conditions designed to protect pre-merger employment levels. While it is often claimed that a merger will result in a positive impact on BEE, it is clear that there are other imperatives that compel firms to extend BEE to their firms; hence the introduction of a BEE partner is seldom contingent upon our approval of a merger.

And although mergers are often claimed to lay the basis for improved export performance, this is usually difficult to establish, particularly against considerable general evidence that the best incentive to export is a competitive domestic market. In other words, firms that can extract monopoly rents from their domination of domestic markets have little incentive to enter difficult international markets, and so, claimed exports rarely justify a merger that will compromise competition in the domestic market. However, the public interest claims are routinely and seriously examined and have frequently formed the basis for the imposition of conditions on merger approvals.

Competition law and policy are not merely "market friendly". Their very purpose is to defend and promote effectively functioning markets.

COMPETITION LAW AND POLICY AND THE DEVELOPMENTAL STATE

When the Act first came into effect, the incorporation of public interest objectives excited much comment from competition practitioners and scholars. The tenor of the comment was that the non-competition objectives, particularly when applied to merger review, would severely compromise the realisation of the competition objectives. These fears have proved groundless.

The balancing of the objectives has been considerably eased by unifying the competition and public interest investigation and decision in the hands of the competition authorities. In the more common schema, the competition decision is made by the competition authority, while the public interest decision is in the hands of an official, usually a minister, who is empowered to override the competition-based decision. This simply incentivises lobbying and, in the process, diminishes the stature of the competition authority. The transparent character of the decision-making process in Commission investigations and Tribunal hearings – with open public hearings followed by reasoned, publicly available decisions – has by and large satisfied those with public interest issues that their views are seriously regarded and that a considered balancing is undertaken.

We are far from the only competition regime that considers public interest factors – particularly employment effects and "national champion" considerations – in competition decisions. Our regime is unusual only by virtue of the explicit inclusion of these considerations in the competition statute and by the competition authorities' role in affecting the balance. For example, in the United States – defender of the purest orthodoxy – certain transactions involving foreign purchasers of US assets are subject to close scrutiny by a committee charged with evaluating – and able to prohibit – them on national security grounds. Many important Asian competition authorities – Japan and Korea, for example – are called "fair trade" authorities, and are deeply concerned with balancing equity and efficiency considerations in their statutes and enforcement practices.

But this does not mean that competition law and policy co-exists comfortably with other branches of economic and social policy. Competition law and policy are not merely "market friendly". Their very purpose is to defend and promote effectively functioning markets.

Competition authorities seek to ensure that newly liberalised markets realise their broader social promise in the form of efficient enterprises producing quality goods at the lowest possible prices.

THE STATE IN THE MARKET

The state is also a major source of market power. It can work directly, either through the instrument of SOEs or via invasive forms of intervention, such as price regulation, or indirectly, through subsidies and other forms of support to selected sectors or even selected firms – the vaunted "national champions" so beloved of industrial policy. In many countries, the competition authorities play a direct role in examining – and sometimes even vetoing - both national and sub-national legislation and regulation that, inadvertently or otherwise, conflicts with competition rules. Indeed, government departments frequently seek the South African Competition Commission's advice regarding the competition implications of intended legislation and regulation.

The environment of the past 15 years has undoubtedly contributed to the support for robust competition law and policy. This period – something of a golden age for competition law and policy – is characterised by high rates of growth in both developed and developing countries. Moreover, there was a growing consensus among economists and policy makers everywhere that this extraordinary period of growth was underpinned by the very liberalisation of domestic and international markets. At very least, there was a consensus that statist trade and industrial policies had run into the ground, leaving a legacy of inefficient SOEs and rent-dependent special interests in the private sector.

While this consensus continued to recognise the importance of government's role in the economy – certainly as it secured macro-economic stability and investment in critical public goods – there is no doubt that, in developed, developing and, most particularly, in the transition economies, the dynamic force of the market was increasingly recognised as the critical foundation of economic growth and development. This provided fertile ground for the widespread acceptance of competition law and policy.

There can be little doubt that South Africa's recent experience of competition law enforcement demonstrates its positive contribution. The competition authorities have, in their relatively short life span, put a stop to a range of pernicious practices of collusion and abuse of dominance. They have contributed to making business practices significantly more transparent and so promoted economic democracy and corporate accountability. Cartel investigations have often exposed the existence of cosy, long-standing "old boys" networks at the heart of the cartel. On the other hand, where our competition policy has faltered in the face of powerful interests – as, for example, in the botched privatisation of Telkom and the failure to restructure the electricity generation and transmission markets – South African

Experience shows that powerful interest groups quickly coalesce around solutions rooted in state largesse.

consumers and the South African economy have paid an extremely high price.

RESPONDING TO SLOWER GROWTH

However, changing times will pose a severe challenge to the consensus that underpinned the widespread support for competition laws and policies. It is now widely held that we have entered a long period of low growth rates. Many will say that a market-based approach to economic policy was simply a euphemism for the relentless pursuit of private wealth, a pursuit which did nothing to improve the lot of the vast majority of people. This view may only be partially correct, but it clearly represents a rapidly growing belief that is shared by those on the street protesting rising food prices and those in the corridors of power hastily drafting new regulations to curb the forces that insufficiently restrained markets are thought to have unleashed.[3]

In this context, industrial policy makers vigorously demand a leading role for the state, while social policy makers are equally intent upon overriding the market to address growing social problems, particularly poverty. The growing chorus of demand for price regulation is evidence of this. Few will quibble with the concerns underlying these initiatives. In many instances. the problems may indeed stem from market failures – competition is not a religion and markets are not gods. But the overriding of market forces will, albeit unintentionally, store up the kind of long-term problems currently experienced in our telecommunications and electricity markets: failures resulting not from intrinsic features of these markets but from the ability of dominant firms to exclude new entrants, despite the advent of new technologies that would permit the destruction of natural monopolies.

This new environment will also impact on the application of competition law. As the downturn begins to bite into the real economy, there will be demands for a more permissive merger regulation regime in order to prevent bankruptcies or promote competitiveness or to protect employment. Greater tolerance of cartels may even be demanded – indeed "recession cartels" have an explicit place in some countries' laws. On the other hand, competition authorities will be subjected to unrealistic expectations regarding their ability to prevent price increases.

It is clearly possible to design complementary industrial, social and competition policies, even in conditions of economic downturn. But there is a real prospect of overreach by our industrial and social policy makers in the context of a heated social environment, an active electoral cycle and, at best, a thin appreciation of the benefits of competition. What is required is careful contemplation of alternative policies. There are more and less distorting industrial and social policies.

This discussion cannot be taken much further here, but by way of example: providing basic industrial capabilities, even if on a selective basis, to firms that are obliged to compete on a transparent basis for access to these state provided inputs is likely to comport with competition rules; direct subsidies to selected, frequently dominant firms will undermine competition and are more likely to be the outcome of successful lobbying than of a persuasive business strategy. In social policy, one approach to poverty alleviation is to build an effective public health system that relies, for cost effectiveness, on vigorously competing private sector suppliers; another approach is to regulate prices charged by private healthcare providers.

Policy makers will be under tremendous pressure to go for the quick fix and the dramatic gesture. Not only is this unlikely to achieve the desired outcome in the short term, but it will store up problems for the future that will be extremely difficult to solve. Experience shows that powerful interest groups quickly coalesce around solutions rooted in state largesse. Competition law and policy will have to demonstrate flexibility in the face of changed economic and social pressures. But they need to retain the parity that they have finally achieved with other branches of economic regulation and policy.

NOTES

1. "Anti-trust law" or "anti-trust agencies" will be used interchangeably with "competition law" and "competition agencies". "Competition law" is (as I shall elaborate in the course of this article) distinguishable from, in fact, a subset or element of, "competition policy".
2. A "competitively structured market" may range from one characterised by a large number of small firms to one characterised by a small number of large firms and, as long as entry is possible, may also include a market dominated by a single, large firm.
3. The contemporary critique of liberalisation has its reflection in the economics profession as well as where what may be referred to as a "post-Washington consensus" accords far more recognition to market failures and imperfect competition as intrinsic features of markets.

Envisioning a democratic developmental state in South Africa:

Theoretical and policy issues

By **Omano Edigheji, Olive Shisana** and **Temba Masilela**

The authors are with the Human Sciences Research Council (HSRC). Edigheji is a research director in the Policy Analysis Unit. Shisana is president and chief executive officer of the HSRC. Masilela is executive director of the Policy Analysis and Capacity Enhancement (PACE) programme

Late developing economies, especially those that want to "catch up", have relied heavily on state interventions to influence the investment decisions of investors, create conditions for risk-sharing between the state, business and other non-state actors, and demand sacrifices from all – as well as articulating how the fruits of development will be shared by all. This final capacity gives legitimacy to the developmental project of the state. In particular, the engagement of the poorer segments of society with the developmental project is largely dependent on their understanding of how they will benefit from such a project, which in turn deters them from the disruptive behaviour that could undermine it. For its developmentalist project to succeed, the state has to develop administrative infrastructure – an exercise in state-building – and forge reciprocal relations with non-state actors. Both of these are anchored in co-ordinated development planning. This was the case in late-developers such as the Scandinavian countries, the celebrated Asian countries and, more recently, Ireland. These should be among the key considerations in theoretical and policy debates in South Africa.

Our aim in this paper is to tease out some theoretical and policy issues that require consideration in South Africa's attempt to build a developmental state. Theoretical issues have been largely neglected in the public debate, and we have focused on the policy issues that we believe require urgent attention if South Africa is to construct a state that can be regarded as developmental.

We need to bear in mind that any discussion about a developmental state is a discussion of *how the state can enhance its planning capacity to enable it to intervene in the economy to achieve its social and economic objectives*. Political leaders in developmental states are highly nationalistic and determined to pursue their developmental agenda – in some cases, in spite of opposition from social and global forces. They recognise that their political survival, and that of the nation, is dependent on the success of the developmental project.

BACKGROUND

South Africa is one of the few countries in the world where a ruling party and government have explicitly committed themselves to the construction of a developmental state. It is also exceptional because the concept of a developmental state has received considerable popular attention. This was evident when the print media published a number of opinion pieces by academics and policy-makers following the 2007 policy and general conferences of the African National Congress (ANC).

These factors are both laudable, but a major challenge remains in the widely divergent views about what the concept means and how to put it into practice. This lack of clarity and common understanding will likely constrain South Africa's ability to construct a state that is developmental and democratic.

In June 2008, the HSRC, in collaboration with the Development Bank of South Africa (DBSA), hosted a conference in Magaliesburg on *The Potentials for and Challenges of Constructing a Democratic Developmental State in South Africa*. It had the following objectives:

- contribute to theoretical insights on the developmental state
- contextualise the concept to meet the needs of South Africa
- highlight how a democratic developmental state can address the challenges of the second economy (in other words, the challenge of poverty)
- highlight the complementarities between a developmental state and a knowledge-based economy.

CONSTRUCTING INDICATORS

With few exceptions (Evans and Rauch, 1997; 1999; Henderson, 2003; Edigheji, 2007), the international literature on developmental states consists of case studies that, to a large extent, do not allow for comparison across countries. Researchers therefore need to identify clear and practicable variables for a developmental state. Such indicators and variables will assist South Africans to focus on the attributes needed to construct a successful developmental state. In addition, this will enable empirical verification by researchers and create the basis from which commentators and policy-makers – now and in future – can judge whether or not the South African state is indeed developmental.

When thinking of a developmental state, the "trick is to establish a connection between development impact and the structural characteristics of the state – their internal organisations and relations to society". (Evans, 1995) In South Africa, how do state institutions, and their relationship to society, impact development concerns such as growth, industrialisation, service delivery, unemployment, poverty and inequality? For example, what are the developmental impacts of:

- the state's institutional and organisational arrangements for policy co-ordination, such as the presidency's Policy Co-ordination and Advisory Services (PCAS) and the ministerial cluster system?
- the Presidential Working Groups on poverty and inequality?
- the Maphai Commission's recommendation that bureaucrats be appointed in performance-based,

short-term contracts (unlike the Asian developmental states where bureaucrats have a long-term career path and are well rewarded, tangibly and otherwise)?

Because bureaucratic competence is required for the effective administration of a developmental state, these questions draw attention to needed policy reforms. And how does South Africa ensure that bureaucratic autonomy is balanced with the democratic participation of citizens? Addressing these issues will also assist state planners to understand and respond to the needs of business and local communities.

A key point is that any *a priori* labelling of South Africa, whether as a developmental or a dysfunctional state, has little theoretical and policy relevance. As Derek Hanekom (2008) argued, what matters is not whether South Africa calls itself a developmental state, but whether it is able to intervene in the economy to achieve its developmental goals.

One indicator of whether a state is developmental is the presence of an ideologically developmentalist agenda. The Reconstruction and Development Programme (RDP) contained five key developmental objectives: to meet basic needs, develop our human resources, build the economy, democratise the state and society, and implement the RDP. (ANC, 1994:7) This could have been an important foundation for a South African democratic developmental state had it not been derailed through the adoption and implementation of the neo-liberal Growth, Employment and Redistribution (GEAR) economic programme. However, the ANC-led alliance has shown a renewed commitment to the core objectives of the RDP, as well as to the construction of a developmental state.

THE CONTEXT: LOCAL AND GLOBAL

While lessons can be drawn from other countries, the developmental state in South Africa needs to be contextualised according to its specific economic and social developmental challenges – all of which are manifested in terms of race and gender. Furthermore, South Africa is embarking on this journey at a time when the pace of globalisation has intensified, constraining the autonomy of states to create their own national policies. The armoury of policy tools now available to countries like South Africa is considerably more limited than that of the developmental states of the 20th century.

As an example, the Asian developmental states, like their Scandinavian counterparts, controlled – and, in some instances, owned – the banks. This enabled them to control private investors' access to credit, thus ensuring that private sector investments were in accord with its developmental priorities. Although this leverage is considerably limited in South Africa, due to globalisation factors and the strength of the banking sector, policy interventions are required so that bank investments in the country will promote the enhancement of human capabilities, industrialisation, and so on. The Financial Sector Code shows that there is room for the state to manoeuvre without the punishing consequences of globalisation.

The existing development finance institutions, such as the Industrial Development Corporation (IDC) and the DBSA – both of which played a critical role in advancing the developmentalist project of the apartheid regime – and the establishment of a state bank could enhance the state's capacity to intervene in the economy to meet its developmental goals. Like other states, South Africa should not be passive but should actively try to shape the new wave of globalisation.

DOES DEMOCRACY IMPEDE DEVELOPMENT?

The developmental state concept is most closely associated with the newly industrialised countries of Asia, and some scholars have identified state authoritarianism as a necessary initial condition for their success. From this logic flows the argument that South Africa is unlikely to build a developmental state because of its democratic nature. The underlying assumption is that there must be a trade-off between development and democracy. However, as Edigheji (2005) points out, if authoritarianism is a necessary condition for development, Africa and Latin America would have been two of the most developed regions in the world.

In fact, the effect of regime types on development is mixed. In Asia, authoritarian developmental states were highly successful in both social and economic outcomes. In three decades, they transformed their economic base from primary to high value-added sectors and improved the living standard of their people. They also achieved equitable growth, and rose from low-income to middle- and high-income countries. The democratic Scandinavian developmental states achieved similar if not better results. In contrast, authoritarian states in Africa and Latin America recorded abysmal developmental failures, featuring low growth and high levels of poverty, inequality and unemployment.

Although there is no correlation between authoritarianism and development, authoritarian developmental states are unsustainable in the long run. For example, following years of economic progress, social forces in South Korea pressed the state to democratise. Had the state not yielded, the protests and strike actions had the potential to undermine the Korean economic miracle. In contrast, development in the Scandinavian countries has been anchored in democratic principles and they have enjoyed long-term political stability. Citizens not only regularly choose their leaders but also are actively engaged in democratic and development processes, from community to national levels. This has contributed to governmental accountability and transparency in these countries. Popular participation legitimates the state's developmental project.

South Africa should predicate its developmental state on the principles of democratic governance. These are provided by the constitution and by the struggle of South Africans for freedom and democracy. A democratic state is both a moral and a constitutional imperative in our country.

Parliament's role needs to be reviewed and strengthened. Since 1994, the executive arm of government has marginalised parliament and dominated the policy-making process. This has contributed to the dominance of public policy by technocrats. In the current situation, parliament cannot amend the budget submitted to it by the minister of finance. It can only accept or reject the budget – a power that it has not exercised. Giving parliament the power to amend the budget could ensure that resources are allocated to meet the developmentalist agenda of the state and to respond to the needs of society.

INCENTIVES FOR BUSINESS PERFORMANCE

According to the international literature, one central characteristic of a developmental state is the state's ability to collaborate with various interest groups and build a national consensus for its developmental vision. Peter Evans (1995) has coined the term *embeddedness* to describe this relationship. It enables state and non-state actors to share information. It is also a basis for the allocation to non-state actors of "rents" or incentives, such as vehicles to increase their domestic market or enable access to international markets. However, such incentives are tied to performance criteria and targets that advance the state's developmental project. Developmental states use a carrot-and-stick approach with non-state actors. Those who fail to meet set targets are punished through the withdrawal of government support. As Vivek Chibber (2008) points out, the state's support of business is not a gift but a contract.

State interventions and incentives are selective. They are not provided to all companies or sectors but only to those that are considered key to the realisation of developmental goals. Selective intervention is also critical for industrialisation and economic diversification.

South Africa's democracy has typically used a consensus-building approach to address its social, economic and political challenges. A number of formal and informal institutional mechanisms were created for the government to consult and negotiate with non-state actors, including labour, business and civil society organisations. While these have yielded some success, they have not achieved all the desired results and major challenges remain.

Research is needed to illuminate how the various formal and informal structures and processes have fared since 1994. It should explore ways to strengthen citizen participation, especially of the poor, in governance and development processes, so that their interests can become the main drivers of public policy. Importantly, this calls for a renewed commitment to the idea of a *people's contract* between the state and all South Africans to address the country's developmental challenges, including the high levels of poverty and inequality, crime, unemployment and HIV/AIDS, as well as to promote economic competitiveness and growth. This is likely to lay the basis for inclusive development and social cohesion in South Africa.

One main shortcoming of the current partnership between the South African state and non-state actors is that it is not reciprocal. The private sector, including beneficiaries of black economic empowerment, is not required to meet performance criteria that will advance a developmental project in the country.

For instance, the post-1994 normalisation of relations with other African countries has created opportunities for South African companies to set up shop throughout the continent. Unfortunately, the government has not established any performance criteria concerning how this expansion will advance a developmental agenda at home, or to ensure that the conduct of these companies in the host countries does not undermine economic and political relations with South Africa. There is thus a critical need for a policy consideration of the returns companies should make to South African society for the assistance they receive from the government.

In addition, while companies such as Anglo-American are world leaders in mineral extraction, the state has not been able to influence them to shift their focus to beneficiation, which would improve South Africa's export earnings. A developmental state would have been able to set and monitor performance targets for beneficiation with these companies. This has contributed to the lack of diversification of the South African economy. A developmental state would not have allowed such companies to make their primary listings on foreign stock exchanges and move their headquarters overseas without extracting a price that would benefit the domestic economy.

A developmental state would also not have allowed Old Mutual – which derives its revenue from the pension savings of South Africans – to have its primary listing on the London Stock Exchange. Such listings and the relocation of headquarters not only make South Africa an exporter of capital but also strip it of a critical source

of finance for its developmental projects. Thandika Mkandawire (2007) reminds us that the developmental states of East Asia and Scandinavia used pension funds for major infrastructure projects. For example, the electrification of Finland was achieved though the use of pension funds. The South African state should not, through an uncritical liberalisation, denude itself of the capital that is crucial for its developmental goals. Policy consideration is required to regulate of the use of pension funds.

More generally, the state needs to set performance targets for the companies to which it provides incentives and supports, and to monitor these. Even where there are criteria, like affirmative action and employment equity, these are largely violated by companies. Unfortunately, the state has not been able to discipline violators. In states like Korea and Malaysia, these companies would not only have been punished, but the state would have withdrawn support from any business associations they were members of. Business associations in those countries were required to ensure that their members complied with collective agreements reached with the state.

This is an area that requires policy attention in South Africa. It is meaningless for the government to make agreements with business associations and provide incentives to their members, only for the latter to violate agreements by failing to meet the performance criteria. A developmental state would not provide incentives to firms nor assist businesses to overcome their collective action problems without extracting something from them in return. The South African state needs to be able to influence the investment direction of private companies to accord with its developmental priorities. This needs to be done within the context of a strategic investment strategy or industrial policy.

SOCIAL POLICY AT THE HEART OF THE STATE

The policy orientation of the developmental state has received extensive treatment in the international literature, with particular focus on the accumulation strategies of the state – its ability to promote economic growth through industrialisation. Most acknowledge that the Asian experiences resulted in qualitative improvements of living standards for their citizens and remarkable reductions of poverty and inequalities, but little attention is given to the specific mechanisms or channels for these results. This is partly because insufficient analytical attention is given to the social policy orientation of the developmental state.

One of the consequences of this is a lack of clarity about the role of social policy in the democratic developmental state. The exclusive focus on growth in the mainstream literature has allowed some to argue that a South African developmental state should have growth as its single goal. But, given the very high levels of poverty and inequality in the country (our Gini co-efficient of over 0.60 shows us to be the most unequal country in the world), a "growth only" strategy has not had much currency. Its feasibility, acceptability and sustainability are suspect.

A critical examination of the Asian developmental states shows that social policy was a major instrument for the state to ensure the socialisation of the risks associated with economic development. These included skills training, provision of public housing, and, more recently, universal access to healthcare and education. Peter Evans points out that the key to the success of the Asian developmental states was a "human capabilities" approach to development. This entailed "building on high levels of human capital by continuing to invest in education and delivering collective goods – e.g. urban infrastructure – relevant to health and capability-expansion more generally". (Evans, 2008) He suggests that massive investment in the welfare of the South African population is a better bet than concessions to capital, because it would be an attempt to compensate for the apartheid legacies of dispossession. By so doing, it would legitimate its developmental project.

In some of the Asian developmental states, the provision of public housing and social services was a key element of their social policy regime. In Korea and Singapore, these included agrarian reform, including land reform. The case of Singapore is particularly interesting because not only does the state own all the land, but it also supplies about 85 percent of housing, through the government housing board. The Asian developmental states have recently moved toward a universal social policy regime, including universal access to education and healthcare. This is in addition to programmes for the training and retraining of workers. Workers in declining sectors are retrained to take up job opportunities in "sunrise" sectors. Furthermore, the scope of the welfare regime has increased to cover previously excluded segments of society, including women, children and the elderly.

In the Scandinavian countries, welfare policies were integral to efforts to transform their economies. This point was well articulated at the Magaliesburg conference by Ha-Joon Chang, who noted that:

> "The Scandinavian welfare policy was closely integrated with strategies to upgrade the economy, where, first of all, a strong universalist welfare state provided social insurance to workers against structural changes, thereby reducing their resistance to those changes. It is no coincidence that Sweden, together with Japan, has the highest number of industrial robots per capita, because the Swedish workers are not so worried about their being replaced. Welfare policies included retraining and help with job search. Those were called 'active labour market' policies." (Chang, 2008)

In the policy discussion of the developmental state in South Africa, there has been a tendency to oppose the developmental state to the welfare state. This is a false binary. There should be no contradiction between welfare policy concerns and the need to build a developmental state. South African researchers might therefore want to address the developmental implications of our welfare policies. Contrary to the general perception, the social grants system in South Africa has not created a culture of dependency. (Noble and Ntshongwana, 2008) Not only is it contributing to poverty reduction, it has positive multiplier effects for development.

HEALTH AND THE DEMOCRATIC DEVELOPMENTAL STATE

This brings us to an aspect of social policy that is close to our hearts: public health. Academic and policy debates on the developmental state in the country have largely neglected the question of health. In almost all developmental states, from Scandinavia to Asia, the provision of healthcare was a central element of their development strategy. It should be recalled that social policy has a reproductive role: it helps to reproduce the workforce.

Given the legacies of apartheid, health policy must reflect, in both its design and implementation, principles of equity and social and redistributive justice. The role of the government to rein in private sector health-care, which is currently characterised by escalating costs and fragmentation, becomes critical in the context of the developmental state. The government ought to intervene in the private sector to ensure that not only services of personal benefit are provided, but also health services with public-good benefits and/or positive externalities. Such interventions could be in the form of control over the *quantity* (and location) of services, the *price* of services and, most importantly, the *quality* of services provided.

The ANC's Polokwane resolution for the "implementation of a national health insurance to further strengthen the public healthcare system, and ensuring adequate provision of funding" shows a clear commitment to strengthen and expand public healthcare by calling for a dramatic transformation of the South African healthcare system. National health insurance would promote universal coverage and social solidarity, aspects of the health system which could be central policies of a developmental state: one that sees enhancement of human capabilities not only as a goal but as the driver of development. Implementation of a national health insurance system will be one sure way to reduce the widening inequalities in health, both in access and quality of healthcare.

Consequently, it is important that, in its efforts to construct a democratic developmental state, South Africa begins to reflect on the role of health, especially public health. Both the ANC's policy conference in June and the subsequent 52nd general conference in Polokwane in December resolved to give pre-eminent attention to both education and health in the coming decade. Given the high levels of HIV/AIDS in the country and the re-emergence of other infectious diseases, researchers need to determine how a developmental state could effectively tackle the epidemic. The HSRC has a large research programme that focuses on the social aspects of HIV/AIDS and we are keen to collaborate to address this question.

ADVANCING AFRICA'S DEVELOPMENT

The tragic, horrifying and totally unacceptable violations of human rights in the xenophobic (or even negrophobic, as black South Africans were also victims) attacks and criminal actions that have occurred in our country recently underline the importance of an inclusive and responsible social policy regime in our country. We would like to reiterate the statement made by President Thabo Mbeki on behalf of all South Africans:

> "Citizens from other countries on the African continent and beyond are as human as we are and deserve to be treated with respect and dignity. Our humanism as a people enjoins all of us to respect, care, co-operate and act in solidarity with others regardless of their nationality.
>
> "We dehumanise ourselves the moment we start thinking of another person as less human than we

are, simply because they come from another country. Humanity is indivisible. As we have seen, what breaks the fabric of respect for others and for the law opens the way for further forms of criminality.

"As South Africans, we must recognise and fully appreciate that we are bound together with other Africans by history, culture, economics and, above all, by destiny. South Africa is not and will never be an island separate from the rest of the continent. We dare not lose sight of the fundamental reality of our interdependence as the people of Africa." (Mbeki, 2008)

The construction of a developmental state in South Africa must take as its premise that South Africa has never been, is not, and will never be an island separate from the rest of the continent.

CONCLUSION

In this paper, we have highlighted some of the scholarly and policy issues that require consideration in South Africa's attempt to build a democratic developmental state. In particular, we point to the need for researchers to construct operationalisable indicators of the developmental state. These indicators will point policy-makers toward the infrastructure that is required to enhance the administrative and political capacities of the state to develop and implement policies and strategies to meet its developmental goals. The building and strengthening of the capacity of the state to intervene in the economy to industrialise and to reduce the high levels of unemployment, poverty and inequality are important policy issues.

Addressing these developmental goals also requires the state to be able to forge reciprocal alliances with non-state actors. State support and incentives to capital have to require the latter to meet specified targets, including local value addition, contribution to human capital development and so on. This has to be accompanied by the state's capacity to discipline capital.

We also propose the establishment of a state bank that could invest to meet the developmental priorities of the state. Similarly, we suggest that the government needs to regulate and control the commercial banks. It is unlikely that, left to their own devices, banks in this country will invest in a manner that promotes a developmental agenda. We further argue that the developmental state in South Africa has to be based upon both democratic principles and social policy. In addition, the vigorous implementation of the five key principles of the RDP is the bedrock agenda for a developmental state in South Africa. The construction of the South African developmental state also needs to be seen as part of the development efforts of the African continent.

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Corruption

Corrupt fraudsters in the state

The views expressed in these articles are part of an important public debate in contemporary South Africa. *New Agenda* welcomes further contributions on these issue. – Ed.

By **SS Sangweni**

The author is chairperson of the Public Service Commission. These remarks opened the third national anti-corruption summit, 4-5 August 2008 in Kempton Park.

We have been engaged in anti-corruption summits since 1999. One of the resolutions at the first summit called for the formation of a multi-sectoral organisation to address corruption in the country. This in turn led to the formal launching of the National Anti-Corruption Forum (NACF) in Langa, Cape Town, on 15 June 2001. As I welcome and introduce you to this, our third national anti-corruption summit, I can recall very vividly being interviewed on SABC on the eve of the launch of the NACF in Cape Town. I was interviewed by the Ghanaian lady [Ofeibea Quist-Arcton] who was seconded from the BBC to the SABC.

Very upbeat about the initiative, I confidently remarked to her, "Corruption will soon be contained, if not completely eradicated through this body representing South Africa in its totality, the NACF!" She looked at me quizzically and remarked, "But there is so much corruption in this country, how will you manage that?" A little ruffled by what sounded like a cynical quibble, I responded passionately and defiantly: "Today we usher in a new and unique weapon against corruption in South Africa. When you interview me next time, on the first anniversary of the NACF, I shall be telling you how we have contained corruption, if not eliminated it. Watch this space!"

Today, I am sad to say that, from where I sit at the helm of the oversight function of the Public Service Commission (PSC), we have seen no less than 5 000 alleged cases of corruption involving persons in government departments and local government structures coming through the National Anti-Corruption Hotline (NACH), launched in September 2004. And obviously, these people are acting in connivance with persons from the private sector and/or civil society.

We have forwarded these for investigation to the departments concerned, but the rate of completed investigations is dismally low. The majority of the allegations relate to "unethical behaviour", which includes arriving late/leaving early at work; theft of departmental property; abuse of telephones, computers and so on. This is followed by just over 900 allegations of fraudulent or irregular procurement transactions and fraudulent claims and qualifications. While these are allegations, some have proved to be true.

We have seen no less than 5 000 alleged cases of corruption involving persons in government departments and local government structures.

They nonetheless point to the serious state of corruption across the board: in the public sector, private sector and civil society. Indeed, we have the phenomenon of cross-sectoral corruption.

Our former president, Nelson Mandela, saw this coming already in his opening address to parliament in 1999, when he said:

> "Our hope for the future depends on our resolution as a nation in dealing with the scourge of corruption. Success will require an acceptance that, in many respects, we are a sick society. It is perfectly correct to assert that all this was spawned by apartheid. No amount of self-induced amnesia will change the reality of history. But it is also a reality of the present that among the new cadres in various levels of government you will find individuals who are as corrupt as – if not more than – those they found in government. When a leader in a provincial legislation siphons off resources meant to fund service to the people; when employees of a government institution set up to help empower those who were excluded by apartheid defraud it for their own enrichment, then we must admit that we have a sick society. This problem manifests itself in all areas of life."

This is a rather chilling welcome and introduction. Today I see emerging in our society two categories of people. One is the category of men and women of virtue who have discharged their duties responsibly and accountably as stewards of resources destined for alleviating poverty among our suffering masses. These we need to protect and preserve the best we can. God bless our land for these!

The second category is that of wicked men and women: the corrupt fraudsters who have siphoned millions, if not billions of rands for their selfish ends from the state coffers for which they are responsible – thus depriving the millions of our destitute masses. They may be listening or even looking at me as I speak. These we do not need in our society.

This is not the space I wanted the Ghanaian journalist to watch. Indeed, I cannot stand tall today as I look at this space!

I trust that we shall build on the integrity of the majority of our women and men of virtue to reinforce the bulwark against corruption, and at the same time, consolidate our strategies for combating corruption so that we can root out the wicked corrupt fraudsters who have no place in our society. Let me also say that we at the PSC, having seen the vision of the NACF and nurtured it from its inception, stand committed to promoting and upholding the high values at the foundation of our national integrity. This is what the NACF hopes to achieve for our people.

Procurement corruption

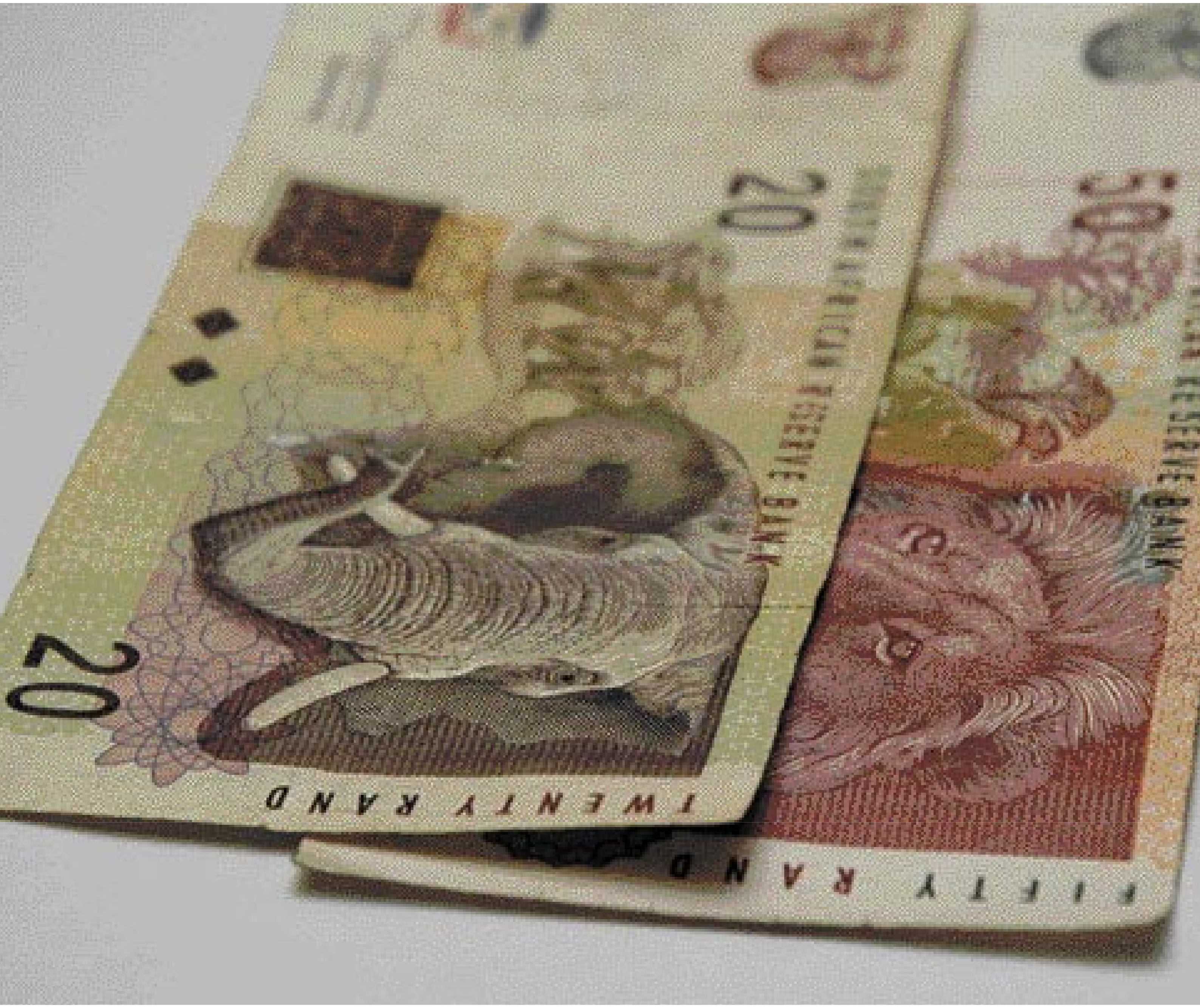
By **Gary Pienaar**

The author is senior researcher in public ethics for IDASA's Political Information and Monitoring Service (PIMS).

Open a newspaper on almost any day of the week and you'll find some comment that South Africa's current procurement system is designed merely to promote "a growing band of BEE billionaire brigands allowing their name to be on the stationery of listed companies for lots of money".[1]

This is the view of a blogger responding to a recent (rhetorical) question posed by Reg Rumney in a column entitled "Fronting = BEE?". (*Mail & Guardian Online*, 28 February 2008) Rumney was asking whether "fronting" – the practice of white-owned companies window-dressing their shareholding, boards, management structures or sub-contractual relationships in order to score preference points that would secure them government tenders – is a legitimate form of black economic empowerment (BEE).

Rumney described a related scenario, in which a genuinely black-owned company wins a government tender without any demonstrable experience, expertise or capacity and promptly sub-contracts the deal to a white-owned company at a discounted price. These



problems have arisen because the legal framework for public procurement currently allows a "rent" (i.e. a higher tender price) of between 10 percent and 20 percent for enterprises where "historically disadvantaged people" play a relatively more significant role.

These are merely two of the fairly simple ploys, adopted by both black- and white-owned businesses, to circumvent the government's affirmative action policies for commercial relationships with the state, as contained in the Preferential Procurement Policy Framework Act (PPPF Act, No. 5 of 2000) and the Broad-Based Black Economic Empowerment Act (BBBEE Act, No. 53 of 2003).

Others have expressed similar concerns about the problems collectively known as "fronting", and about manipulation of tenders more generally. For example, then Public Works Minister Stella Sigcau several years ago signalled the government's growing frustration with and intolerance of tender manipulation and non-compliance with its BEE objectives. (Moloi, 2006:32)

These practices represent an unknown proportion of the problems that continue to bedevil the beleaguered public procurement system, but they represent a dimension of the problem that generates a disproportionate amount of resentment. Tender corruption extends far beyond the field of BEE and, clearly, not all BEE deals are corrupt. Similarly, not all procurement corruption has a narrow political party motivation – ordinary greed plays its usual part. Neither are government's broader transformative political and economic goals inappropriate. On the contrary, most South Africans are generally supportive of the inclusive goals introduced into the public procurement process. Indeed, if the public discussion is any measure, they want its transformative and financial objectives to be achieved more effectively.

But in post-apartheid South Africa, race, class, money and politics often combine to reflect some of our most debilitating weaknesses. These factors consequently provide the context for much of the discussion here. And it is these factors that, together, threaten the integrity of our democratic ideals.

CONFLICTS OF INTEREST

The additional feature of the current system to which Rumney's blogger referred is the repeated empowerment of those closely associated with the government itself, a feature commonly described as "narrow" BEE or "cronyism". In this context, "crony capitalism" is an epithet attached to the all-too-frequent appearance of government members or their close family members or friends as shareholders in massive tender contracts between, for example, complex commercial joint ventures and the state. It can also be applied to the state's continued reliance on the still largely white-controlled oligarchies that dominate much of South Africa's private sector, despite progressive anti-monopoly legislation and an increasingly assertive regulatory watchdog, the Competition Commission.

Often, it is alleged, these partners offer little expertise but significant access to state business through their connections.

Preferential procurement laws motivate business entities to permanently restructure themselves in order to compete effectively for lucrative state tenders. Frequently, these restructuring exercises take the form of "empowerment" deals that involve large share options allocated to black empowerment partners. Often, it is alleged, these partners offer little expertise but significant access to state business through their connections with influential public servants or with the ruling party. Thus, for example, a company will exchange share options or a seat on the board for the understanding that including this well-connected person will result in preferential consideration for the company when tenders are adjudicated.

Instead of the benefit only accruing to the company and the state, however, wealthy individuals (black and white) or the ruling party also benefit – even if only indirectly, as some of the proceeds are skimmed off or donated to a party-linked trust or to the party itself.

The precise extent of crony capitalism in South Africa is unknown, but auditing firms will tell you that, generally, only a fraction (approximately 10-20 percent) of dishonest activities ever come to light.

Consider this statement by a black South African:

> "Apart from benefiting just a few who are connected to the upper echelons of the ruling party, BEE has resulted in super-wealthy black elites who tend to be recycled time and again. This is not to mean that I have a problem with blacks being rich *per se*, but can someone tell me why a [Mr X], after winning back-to-back bouts of empowerment on a BEE ticket, still qualifies as a disadvantaged person? ... If the government is serious about fostering a united and prosperous South Africa, it ought to start placing an empowerment ceiling on all people qualifying for BEE." (Ndamase, 2008)

The repeated empowerment of an inner circle, an economic or political elite that is already fabulously wealthy or close to government, or both, is a widely held perception, despite uncertainty about its precise extent. It is a phenomenon that catches the headlines because it reasonably irks many – for it represents a continued failure to implement the government's legitimate economic policy objective of widely and equitably *shared* growth. Consider the following examples reported in recent years:

- the sale of membership in the ANC's Progressive Business Forum, which affords access to "networking opportunities" with key politicians and bureaucrats (*Cape Times*, 19 February 2007)
- the ANC "effectively owns" the Network Lounge, which reportedly leased space to "a number of parastatals" at the party's 2002 national conference in Stellenbosch (*Mail & Guardian*, 14 March 2008)
- the ANC Youth League implicitly recognised the problematic implications of the League's involvement in business and investment activities through its investment arm, Lembede. Reportedly, most of Lembede's assets are shares in companies that have benefited from government tenders. (*Mail & Guardian*, 22 April 2008)

To understand the implications of the conflicts of interest associated with many such transactions, consider the following scenario. A tender is awarded by a parastatal for a large construction project.

When the winning bidder and the parastatal disagree about the scope of work, the parasatal's board supports a decision to revert to the only other (and originally losing) bidder. It also supports a decision to award to the new winner several similar projects, allegedly doubling the value of the order without a further tender.

It might be that these were perfectly rational decisions, taken in the best interests of us, the shareholders, but it might not be coincidence that a well-connected company has a significant stake in the new winning bid – and that a senior member of the board is a regular donor to a political party.

This raises the crucial questions: in the decision to replace the tenderer, whose side would the board member choose? Would he recuse himself? Would he let the South African public, as stakeholders and shareholders, know the answer?

MOONLIGHTING CIVIL SERVANTS

The considerable extent of "business moonlighting" by public servants – and, therefore, potential conflicts of interest – was revealed in the auditor-general's controversial 2006 report entitled "Performance audit on declarations of interest by ministers, deputy ministers and government employees". The report recorded that over 52 000 government employees had interests in more than 20 000 close corporations, or private or public companies. These numbers included numerous national and provincial cabinet ministers, and other senior, or "designated", employees. Designated employees are required by the Public Finance Management Act, 1999 (the PFMA), to make annual disclosures of their financial interests. Non-designated employees are obliged by the Public Servants Code of Conduct only to seek prior permission before performing external remunerative work, which they "generally fail to do". (Robinson and Brummer, 2006:7)

Although the auditor-general's report conceded that it was based on possibly outdated information, its essential point was that "an increasing number of public officials are brazenly pursuing business interests, most of which are undeclared and a significant proportion of which have the potential for conflicts of interest as the companies of these officials are cropping up in business transactions with the government". The auditor-general called for legislation to more tightly regulate this "untenable" situation. (cited in Robinson and Brummer, 2006:7-8)

The ANC's tripartite alliance partner, the South African Communist Party (SACP), has expressed its concerns about this trend as follows:

Generally, only a fraction (approximately 10-20 percent) of dishonest activities ever come to light.

> "In these circumstances, emerging black capital (at least the key faction most closely associated with the ANC and the state) tends not to be involved with an expansion of the national forces of production, including significant job creation. It is, rather, excessively … parasitic. This emerging class fraction has, typically, not accumulated its own capital through the unleashing of productive processes, but relies on special share deals, 'affirmative action', BEE quotas, fronting, privatisation and trading on its one real piece of 'capital' (access to state power) to establish itself." (Nzimande, 2006a)

Blade Nzimande, the SACP's general-secretary, has also stated elsewhere: "The passage of the Black Economic Empowerment Act and a number of transformation charters has created an environment through which small and micro enterprises (SMEs) can perform better. However, the single biggest problem with the model of BEE that has evolved thus far is that it has tended to focus more on big ownership deals for black peoplem, without focusing on the growth and development of, especially, black SMEs." (Nzimande, 2006b)

In contrast, the resolution on BEE adopted at the ANC's 51st Policy Conference in Stellenbosch, December 2002, set out a vision of BEE in "its broadest sense, as an integrated and coherent socio-economic process located in the context of the reconstruction and development programme (RDP). Its benefits must be shared across society, and impact as widely as possible".

While public officials' business interests are not unlawful, they do create a web of underlying informal and unstated networks of interest that overlap with, and may impinge upon, those activities in which we all legitimately expect the state to act in the broader public interest. Even if conflicts of interest occur only in the public's perception, that alone is problematic, as first doubt, then suspicion, then cynicism and eventually widespread criminality take root.

Corrupt practices certainly also occur in the private sector, as we have seen in the anti-competitive collusion of various private businesses involved in producing bread, and in the supply of pharmaceuticals to the state. But, in the context of South Africa's efforts to transform our society from its divided past, politicians' and bureaucrats' overlapping business interests frequently take on a particularly political character and impact. Consequently, ANC treasurer-general Mathews Phosa's comment, that ANC "NEC members, like any South African, have a right to participate in business. It's their constitutional right" (*Cape Times*, 15 July 2008) is both disingenuous and shortsighted. While legally correct, it entirely ignores the clearly negative implications of these intersecting interests.

Witness the extremely disturbing public perception (85 percent) of the extent of corruption at the highest levels of government, as recorded in a recent TNS public opinion survey. (*Cape Times*, 24 June 2008) Numerous anti-corruption studies have warned of the social phenomenon referred to as "the fish rotting from the head". The TNS survey appeared to find evidence of this trend in the high number of South African adults (20 percent) who reportedly are willing to buy pirated CDs and DVDs.

Corruption In State Departments

Such public perceptions can only be further fuelled by the reportedly "endemic" nature and extent of corruption in the department of correctional services, according to a recent report to the parliamentary portfolio committee on correctional services by the Special Investigating Unit (SIU). (PMG, 2008; *Cape Times*, 21 May 2008) The report provides details of a range of fraudulent activities, including tender-rigging. Twenty-seven officials, some above the rank of director, face disciplinary proceedings for undisclosed business interests.

In similar vein, it has been reported that State Information Technology Agency (SITA) officials admitted to a closed hearing of the parliamentary portfolio committee on home affairs that proper procedures were not followed when "combined contracts worth more than R3.4 billion" were a awarded to four IT companies in a project to modernise the department's identification systems.[2] (*Cape Times*, 13 and 23 June 2008) As the testimony was heard behind closed doors, it is unclear whether the reported irregularities involve any undue benefits to anyone, although the costs of the project have reportedly risen significantly.

In 2006, the auditor-general found evidence of extensive tender irregularities at CIPRO, the department of trade and industry (DTI)'s Companies and Intellectual Property Registration Office. The irregularities included the conclusion of tender contracts in disregard of open and fair tendering procedures while two board members had undisclosed business interests with two of the contracted service providers. In addition, officials at management level had failed to comply with standard declaration of interest procedures in the relevant financial year.

The recent partial leak of the report of the Pillay commission of inquiry appears to document similar manipulation of the public tendering system to the benefit of a number of senior politicians and their relatives. A preliminary investigation by Judge Ronnie Pillay's commission (allegedly hindered by government agencies' failure to respond to subpoenas) appears to reveal tenders irregularly awarded by the Rapid Infrastructural Development Agency (RIDA), the Coega Development Corporation (CDC) and the Eastern Cape Development Corporation (ECDC). The leaked version of the Pillay Report also finds proof of irregular loans from public funds to relatives of these senior politicians. (*Daily Dispatch*, 10 July 2008)

The Underlying Pathology

"The best way that corporate capital knows to create certainty is to buy it." (Robinson and Brummer, 2006:8) This is one assessment of how South African business has sought the holy grail of investment security – by plugging the ethical voids in our legislative framework with money.

These problems persist despite our growing anti-corruption legal architecture. They endure although the government, apparently recognising both the abuse and limitations of the PPPF Act, adopted the BBBEE Act to ensure the extension of business opportunities to a broader number of previously disadvantaged South Africans.

It seems, however, that the limitations of the former, rather than being resolved, have been compounded. Public servants now face even greater difficulties when evaluating the BBBEE compliance of bids by joint ventures and consortiums. Such is the extent of these challenges that the DTI has published detailed "Guidelines on Complex Structures and Transactions, and Fronting".

The implications for the validity of any tender awarded at these meetings are potentially serious.

Moreover, it is not at all clear that the enforcement of the BBBEE codes of good practice will have the desired effect of encouraging broader access to economic opportunities, given the rather weak mechanism that they represent. Section 10 of the BBBEE Act, "Status of codes of good practice", provides only that "[e]very organ of state and public entity must take into account and, *as far as is reasonably possible*, apply any relevant code of good practice issued in terms of this Act". (emphasis added)

This hardly provides for simple and effective enforcement. South Africans' sensitivities concerning affirmative action no doubt informed the framing of this provision, but it does leave a gaping hole in the ability of the state to stem what some fear is a wave of crony capitalist relationships that will overwhelm our young democracy the way they have in Malaysia and Nigeria.[3]

In any event, as mentioned above, the imperfect implementation of (broad-based) BEE is not the sole – or even the primary – concern characterising public procurement. Plain non-racial and apolitical greed provides the mundane explanation for a significant part of the problem. The government has, for example, enacted the widely welcomed Prevention and Combating of Corrupt Activities Act (No. 12 of 2004). This Act has simplified the investigation and prosecution of a number of newly created specific offences relating to tenders.

Despite this tough legislation, the hard truth is that the important and well-intended anti-corruption and BEE legislation requires extensive buttressing by other measures that are themselves either failing us – such as ethics requirements for supply chain practitioners – or do not exist, such as the regulation of party funding. And these failures and absences allow structural weakness to threaten the integrity of the economy and, thereby, of the democratic state.

A significant aspect of South Africa's apartheid legacy is that very few black South Africans have had the opportunity to acquire the entrepreneurial skills necessary to start their own commercial enterprises and to grow them into flourishing and expanding businesses. The preamble to the BBBEE Act accordingly recognises that "South Africa's economy still excludes the vast majority of its people from ownership of productive assets and the possession of advanced skills". Consequently, the state has seemingly felt obliged to allow those few who have succeeded in this way to lead multiple complex joint ventures which include others still struggling to find their feet.

The underlying problem the BEE legislation seeks to address is that the pool of those who are achieving success through government contracts is not growing fast enough. (Consulta Research, 2007:31) This is at least partly because of the failure of past public contracts to more effectively or rapidly transfer skills to joint venture partners or sub-contractors. Of course, this is not a task that the state either can or should be expected to undertake alone. The private sector has a significant responsibility and contribution to make.

The consequence is that those few high-profile individuals who do achieve success in business are repeatedly re-empowered by uncritical and short-sighted public accounting authorities who seek merely to get their job done, or who actively seek to claim personal or sectional benefit. The larger the contract, the more this effect is compounded, as there is a conversely smaller pool of business leaders who can effectively manage the many large contracts required to develop our economy and transform our society.

A fundamental aspect of human nature is our limited ability to know and trust more than a relatively small group of people. Without incentives and the means to look beyond, we tend to stick with those we think we know. BBBEE legislation tries to provide some of those means; other vital means include a track record that would enable one to access sufficient capital to take on large contracts.

Further reinforcement for public sector managers to look beyond this small pool is provided by the ethical rules already included in our legislation. These seek – relatively ineffectively – to insulate the state from the corrupting effects of our limited ability to form trusting relationships, as well as our greed. What are these rules? Are they adequate to the task?

THE LEGAL FRAMEWORK FOR PROCUREMENT

The Constitution

Section 217 of the Constitution provides that, when any organ of state contracts for goods or services, it must do so in accordance with a system that is fair, equitable, transparent, competitive and cost-effective. It also specifically allows for measures aimed to prefer, protect and advance persons, or categories of persons, disadvantaged by unfair discrimination. Notably, this is not limited to past unfair discrimination.

The PPPF Act

The PPPF Act declares in its preamble that its purpose is to give effect to section 217 by providing a framework for the implementation of procurement policy. It applies in all spheres of government and to all organs of state.

In Section 2 and in its Regulations of 2001, the Act introduced a dual-scale preferential points system. Recognising that historically disadvantaged groups may not be able to compete on equal terms or offer the best price for government contracts, this dual system allows the government to take into account factors other than price when awarding a contract. In other words, there is a built-in acknowledgement that the government will pay more than it would have if price had been the only factor in the award of public contracts. This is the "rent" alluded to by Romney.

The problem of "fronting" is anticipated in Section 2 (g), which allows "any contract awarded on account of false information furnished by the tenderer in order to secure preference in terms of this Act" to "be cancelled at the sole discretion of the organ of state without prejudice to any other remedies the organ of state may have".

The BBBEE Act

This Act built on the foundation of the PPPF Act, and expressed ambitious and well-meaning goals: to facilitate BBBEE in ways that extend ownership and management to new entrants in the economy, including women and rural communities.

The Public Finance Management Act, 1999 (as amended)

The PFMA underpins both of these pieces of legislation, and is blind to colour and political stripe. It provides for the delegation of the state's procurement function from the pre-existing national and provincial Tender Boards to departmental or public entity accounting officers. The purpose of the PFMA is to render procurement activities more cost-efficient, timely and fair by allowing senior officials closer to the daily activities of service delivery to manage their own supply chain.

The national treasury's State Tender Board remains in existence to provide assistance for simultaneous or large procurement activities on behalf of several departments, as well as advice. In addition, the Tender Board provides support to other organs of state, for example, by maintaining a database of blacklisted tenderers previously found guilty by a court of transgressing various ethical rules and standards, including fronting, failure to register for tax, or otherwise defaulting.

THE ETHICAL FRAMEWORK: SEPARATION OF POWERS AND INTERESTS

The South African legal and ethical framework provides for a clear separation between personal interests and the public interest. It also creates a separation of powers between the ruling party as a political organisation and its members or supporters who hold elected or other public office, or are employed as public servants.

52 000 government employees had interests in more than 20 000 close corporations, or private or public companies.

The Constitution

The equal rights provisions in Section 9 of the Constitution allow certain forms of managed "fair" discrimination in favour of previously disadvantaged persons. Further, section 195(1)(d) of the Constitution requires that public services be provided "impartially, fairly, equitably and without bias", and Section 217 requires a procurement system that is, among other things, fair and transparent.

The Public Service Act, 1994

The Public Service Act, read with the Code of Conduct for Public Servants, 2001, provides that employees must "serve the public in an unbiased and impartial manner in order to create confidence in the Public Service". A public servant may not "engage in any transaction or action that is in conflict with or infringes on the execution of his or her official duties". They must refrain "from any official action" and recuse themselves from any decision-making process which may result in improper personal gain, and this should be properly declared by the employee".

Similarly, political considerations may play no part in the provision of public services. Thus, the Code requires that a public servant "does not abuse his or her position in the Public Service to promote or prejudice the interest of any political party or interest group".

The PFMA

The constitutional requirements are mirrored in the PFMA, which prescribes that accounting officers/ authorities must ensure that the public entity has and maintains an appropriate procurement and provisioning system that is fair, equitable, transparent, competitive and cost-effective.

Moreover, the PFMA provides that the accounting authority of a public entity/organ of state must "act with fidelity, honesty, integrity *and in the best interests of the public entity*" in managing its financial affairs". (emphasis added) In other words, the interests of the department, for example, *as a representative of the general South African population it serves*, override any other interests.

Subsection (2) continues in this vein: "A member of an accounting authority … may not act in a way that is inconsistent with… [his/her/its] responsibilities … in terms of this Act … or use the position or privileges of, or information obtained as [a member of an] accounting authority, for personal gain or to improperly benefit another person".

Subsection (3) provides for a mechanism to prevent some of these abuses. Thus, a member of an accounting authority must disclose to the accounting authority any direct or indirect personal or private business interest that the member or any spouse, partner or close family member may have in any matter before the accounting authority, and withdraw from the proceedings of the accounting authority when that matter is considered. The accounting authority may grant an exemption if the interest is trivial or irrelevant.

The treasury issued a General Procurement Guidelines in terms of the PFMA, establishing the procurement process on the "five pillars" of:

- value for money
- open and effective competition
- ethics and fair dealing
- accountability and reporting
- equity.

A mandatory Code of Conduct for Bid (i.e. tender) Adjudication Committees, issued by the treasury as a Circular in March 2006, is applicable to all members of accounting authorities when they participate in that authority's procurement function. The need for yet another Circular clearly reflected the failure of previous guidelines to stem the flow of tender irregularities. It provides explicitly that the integrity of members of the Bid Adjudication Committee must "never be compromised and the highest level of professional competence must be maintained", and they must ensure that fair procedures are followed in evaluating tenders.

INSTITUTIONAL INATTENTION

However, the value of these checks is determined in large part not only by the absence of any corrupt intent, but also by the diligent presence and participation of competent members of bid committees.

Hearings before parliament's standing committee on public accounts (SCOPA) on 5 March 2008 revealed that three of the six members of Eskom's tender adjudication committee did not attend meetings regularly. The chairperson of Eskom's board, since replaced, told SCOPA that after some members had left some time elapsed before they were replaced. He apparently did not consider the activities of the committee sufficiently important to appoint interim members, despite the fact that the Code provides for this eventuality.

While not necessarily producing corrupt outcomes, such inattention can lead to weak governance and allow certain narrow interests to pervert the very purpose of these committees. In any event, the presence of only half of the members of Eskom's committee at several meetings appears to have breached the Code's requirement for a quorum of 60 percent of its members. The implications for the validity of any tender awarded at these meetings are potentially serious.

An even more vital check on the dishonest manipulation – or even casual inattention – that can characterise

Even if conflicts of interest occur only in the public's perception, that alone is problematic, as first doubt, then suspicion, then cynicism and eventually widespread criminality take root.

tender adjudication is the Circular's prescription for committee members to declare their interests annually. At each committee meeting, each member and each official providing administrative support must also sign a declaration that they will "not purposefully favour or prejudice anybody".

The Code also requires, in strict and unequivocal terms, that an attendance register must be signed by members at each meeting; that this register must include a declaration of interests, including "all gifts and invitations accepted to social events received from suppliers or potential suppliers, irrespective of the value"; and that the register form part of the official minutes.

The Code also requires that no discussions may take place until each member (including the chairperson or vice-chairperson) declares every reasonably possibly relevant interest concerning any matter serving before the committee and until affected members have recused themselves.

With all these safeguards in place, why then are there so many problematic tender decisions?

FAILING TO REGISTER

The Public Service Commission (PSC)'s 2008 annual report on the state of the public service recorded a disturbingly widespread failure by senior managers – among those most likely to be involved in supply chain management on behalf of an accounting authority – to annually register their financial interests. Although the number registering their interests has improved from 62 to 85 percent over the past three years, the PSC expressed the view that "these figures… remain an indictment on the political and administrative leadership".

National departments scored an average of just 70 percent and five national departments had a compliance level of 0 percent – despite the fact that the PSC had highlighted the issue in its previous annual report. Unfortunately, the PSC's report fails to name the defaulting departments, so we are unable to determine the potential impact of this dismal failure on particular tender contracts.

Clearly, however, bureaucrats' declarations of financial interest, and their recusal from processes in which they have a documented stake, cannot promise a comprehensive solution where relationships do not involve only direct, "hard" financial interests. The exchange of public contracts for promises of future employment or political support will probably remain largely in the realms of political gossip and rumour.

Given the inveterate opacity surrounding these "soft" aspects of the complex process of tender adjudication, what tools could proscribe the immoral and corrosive practice of looting the state's coffers for sectional or private gain?

Numerous anti-corruption studies have warned of the social phenomenon referred to as "the fish rotting from the head".

The annual declaration of financial interests remains an important control measure, although it clearly needs better enforcement. So is the requirement that all officials recuse themselves from participation in decisions in which they may have an interest. The public interest imperatives enshrined in the PFMA – the "five pillars" – must be protected. Every effort must be made to ensure that any contracted service provider is providing the best possible service available at the best possible price, bearing in mind other legitimate and necessary public policy imperatives such as equity.

The PFMA Draft Amendment Bill may go some way towards clarifying and strengthening both the public procurement framework and its procedures. It is also evident, however, that these measures are insufficient. What additional measures might be useful in improving the integrity and efficiency of the public procurement function?

IS THERE A SOLUTION?

Party funding

IDASA has long campaigned for the legislated transparency of, and clear thresholds for, donations to and funding of South African political parties. (see, among others, Calland and February, 2004) Without this vital monitor of the flow of funds from the state to political parties via the private sector, South Africans will continue to feel increasingly uneasy about whether personal or sectional interests are overwhelming the legitimate developmental objectives of the state.

The ANC's 2007 Polokwane Policy Conference for the first time contained a clear commitment to the introduction of legislation to regulate public and private funding of representative political parties. The resolution reads, in part: "The incoming NEC must urgently develop guidelines and policy on public and private funding, including how to regulate investment vehicles."

However, as no legislation was introduced during the current session of parliament, South Africa is likely to face more bruising revelations in the 2009 general election campaign.

Cooling off restrictions

IDASA has also long advocated the introduction of post-employment restrictions for public servants. Thus, a public servant would be prohibited from accepting employment with a company that had secured a contract with that official's former department or agency for, say, up to two years. Based on international experience, IDASA believes that the introduction of a "cooling off" period will bolster public confidence that the "revolving door" syndrome of jobs for favours plays no (significant) part in public procurement decisions.

The government recently introduced the Public Service Management Bill (B47-08, 17 June 2008), which provides for a one-year restriction on officials who have been closely involved in making procurement decisions from accepting employment with a private entity that is in a contractual relationship with the relevant public entity or department.

While IDASA believes that the existing proposal doesn't go far enough, both in terms of the maximum period of restriction and the narrow scope of official functions included, it is a welcome step in the right direction.

Blind trusts

Finally, the "blind trust" is a simple mechanism that could be extended to a wider spectrum of public servants. In terms of the provisions of the Executive Members Ethics Act, members of the national and

Public servants now face even greater difficulties when evaluating the BBBEE compliance of bids by joint ventures and consortiums.

provincial cabinets are already obliged to place "under the control of an independent person or agency" the administration of any financial interests that "*may* give rise to a conflict of interest". (emphasis added) During their term of office, members of the executive are prohibited from having "any communication with" or giving "any instructions to" the administrative person or agency. The costs of such administration are borne by the state.

Given the extreme levels of suspicion that continue to characterise procurement processes in South Africa, it may be of assistance to subject the officials involved to similar controls. Judging by the reports of the PSC and the auditor-general, regular declarations of interests and recusal from participation are proving too difficult to implement and enforce.

It may be simpler and more effective to require members of an accounting authority's team to place all relevant financial interests under administration immediately upon joining that team and for the duration of that membership – as is done in the United Kingdom. The cost to the state may be well worth the benefit arising from enhanced public confidence in the public procurement process.

CONCLUSION

In politics, perception sooner or later takes root in reality. Will citizens, in significant numbers, lose confidence that their legitimate interests are taken seriously by the state, and that they have a stake in a shared future? Can we afford to allow the delivery deficits described here to contribute toward a growing democratic deficit?

Our common human nature will never allow the complete elimination of corruption. However, South Africa's very birth as a constitutional state owes much to lessons learned by other members of the human family. We can learn from others' experiences in this field too. Many South Africans are growing increasingly concerned that we inexplicably fail to apply the full range of available remedies that could serve, at least, to defuse some of resentment and anger felt by the dispossessed.

NOTES

1. I should like to acknowledge invaluable advice and assistance from Judith February, manager of PIMS, and my colleagues, Shameela Seedat, Pamela Kambela and Nonhlanhla Chanza. Any errors are mine.
2. While the home affairs director-general has denied any irregularities in the tender adjudication procedure followed, Minister Nosiviwe Mapisa-Nqakula has reportedly asked the auditor-general to investigate.
3. After a lengthy delay in resolving both these weaknesses and the inconsistencies between the PPPF Act and the BBBEE Act, a draft Public Finance Management Bill, 2008, appears to be making its way into the public domain. The draft bill declares the intention to repeal the former and to strengthen the Codes of Good Practice promulgated in terms of the latter.

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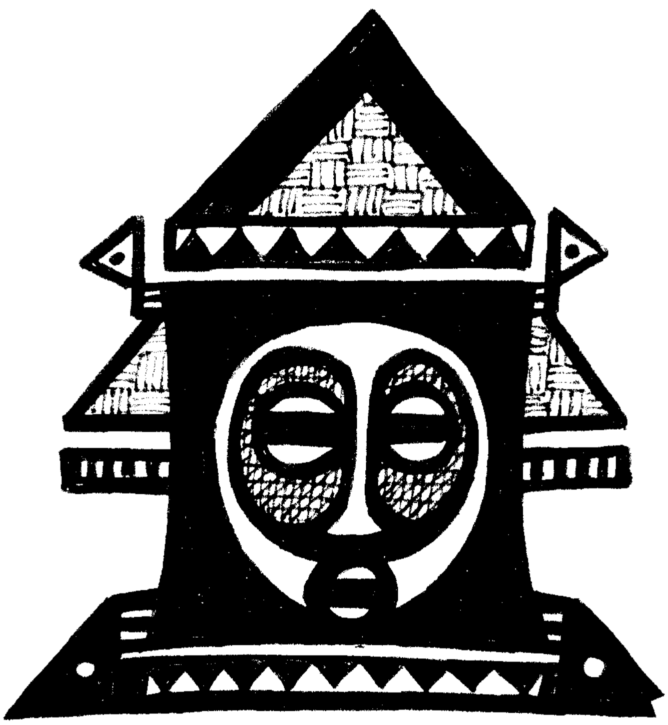

Power, profit and political corruption: Towards a more effective national integrity system

By **Hennie van Vuuren**

The author is head of the Corruption and Governance Programme at the Institute for Security Studies (ISS) in Cape Town

The third South African National Anti-Corruption Summit brought together leaders from government, business and civil society in August to discuss a National Integrity Framework. This paper raises issues that we need to prioritise for the National Integrity Framework to be nurtured, promoting an environment in which resources are distributed equitably among all our people. The paper draws also draws on the findings of a study into corruption under apartheid and a national integrity study undertaken by the author.

THREE PHASES OF NATIONAL INTEGRITY

Emerging from the horror of apartheid, South Africa has come to recognise that the regime not only institutionalised violence against its own people, it also used this unchecked authority to plunder resources and promote a culture of corruption in the public and private sector. The first fourteen years of democracy has therefore been presented with the enormous challenge of dealing with this legacy. Research into grand corruption under apartheid suggests that the legacy is not confined to bureaucratic small-scale corruption. More damaging have been the networks of corrupt apartheid-era politicians and businesspeople that, with connections within the new ruling elite, continue to thrive.

Despite this, the country has made enormous strides in promoting a culture and framework for accountability. This was buoyed by the aspiration of the majority of South Africans for a more just, equal society. In the past fourteen years, the country has, I would argue, moved through three different phases of developing a system of "national integrity" (encompassing the laws and institutions needed to combat corruption, including oversight institutions and the engagement of non-state actors such as political parties, the media and civil society) in order to counter corruption and the accompanying distortion of public interest.

1994-1999: During this period, the focus was primarily on creating a legal basis for a functioning national integrity system. This commenced with the South African constitution and the Bill of Rights guaranteeing freedom of association and the media. Importantly, it also saw the creation of checks and balances on authority and the establishment of the "Chapter Nine" institutions (the auditor-general, public protector, Public Service Commission and others) as well as a single police service and constitutionally protected national prosecuting authority.

1999-2007: While some laws were still crafted during this period (such as whistleblower protection and the establishment of the Directorate of Special Operations), the focus shifted to implementation and institutional strengthening. This was in some ways the hardest work, ensuring delivery on the promise of more accountable governance. However, increasing reports of corruption in all spheres of society, not least the infamous billion-dollar "arms deal", also tested institutions. This initial political response was initially a game of attack and defence between the opposition and government. In the past few years, there has been a marked shift towards introspection within government and the ruling ANC as to the causes and consequences of corruption. For the first time, one has seen a consistent response by members of the executive, the leadership of the ANC, and struggle veterans such as Desmond Tutu, who warn openly of the dangers of a culture of crass materialism and corruption. They have continuously reminded society that we cannot allow patronage and greed to undermine public service delivery to the poor and the strengthening of the democratic order.

2007–now: It is apparent that we are moving into a new phase that started well before the watershed 2007 ANC conference in Polokwane. While the challenges of making the integrity system work remain (implementing laws and creating institutional capacity), there are also threats, coming from some leaders within the ruling party and other sectors of society, that could seriously strain this framework in the years ahead. This is witnessed in the:

- verbal attacks made against the judiciary and constitutional court by senior politicians
- draft legislation that could muzzle the press in reporting on corruption
- implication of the national commissioner of police in organised crime
- suspension of the head of the national prosecuting authority which appears to be linked to his investigation and proposed prosecution of the national commissioner of police
- attempts to disband the Scorpions and neutralise their independence by placing them under the direct control of the national commissioner of police
- often violent jockeying for position at all levels of governance within the ruling party in the run-up to the 2009 elections, which often appears to be centred around access to resources and patronage.

The current phase may well be short lived and nothing more than political posturing, but if the national integrity system is weakened, the impact will be profound. Most importantly, this could allow for high-level political corruption to go unchecked and develop into systemic proportions. This will in turn have a negative knock-on effect on poverty alleviation, economic development and democratic consolidation. This paper should not be read as an attempt to suggest that the political class has failed South Africa and that the national integrity system is in terminal decline – this would ignore the relative robustness of the system and our democratic institutions. However, it does attempt to highlight particular areas of concern for all South Africans who are committed to the future of our country.

POLITICAL CORRUPTION IN SOUTH AFRICA

While corruption is often understood as the "abuse of entrusted power for private benefit", *political corruption* can be defined more narrowly as the "*abuse of political power for private benefit*". This definition is not intended to align the concept only to corrupt kleptocrats such as Mobutu Sese Seko, Mohamed Suharto and their puppet masters in the West who were involved in the accumulation or extraction of power. It equally focuses on the misuse of such funds for narrow political purposes

– such as building patronage networks or funding political parties. It takes place at the highest level of the political system, involving senior elected and appointed officials who work closely with senior leaders in the private sector – who are often active accomplices in such corrupt behaviour. Importantly, it also "takes place at the formulation end of politics, where decisions on the distribution of the nations' wealth and the rules of the game are made." (Amundsen, 2006)

As far back as the1960s, Chief Albert Luthuli warned against the legacy of materialism he observed among the South African (white) power elite.

Low-level petty corruption is kept largely in check in South Africa (with the exception of a few sectors) and, where it has become entrenched, agencies such as the Special Investigating Unit and SAPS play a key role to restrain it. However, there is much to suggest that political corruption is in fact one of the greatest challenges we face. It is therefore central to the debate on improving the national integrity system. The reasons for this are partly historical. As far back as the 1960s, Chief Albert Luthuli warned against the legacy of materialism he observed among the South African (white) power elite. (Luthuli 2006) Activist and academic Mamphela Ramphele reminds us of the poignancy of those words over forty years later, drawing parallels with contemporary South Africa, when she argues:

> "The temptations of materialism are everywhere. Success is defined not by what one accomplishes, but by what one owns. Many young people know no other motivation for developing their talents than to be able to make money. The use of state resources to feed this materialism is worrying. The NP government used 'state capture' to enrich their constituency at the expense of the rest of the population. Post-apartheid South Africa cannot afford to allow 'state capture' by the new elites. It would undermine everything we yearn for in a free, democratic society." (Ramphele, 2008)

Ramphele also introduces us to the danger of state capture, where corrupted elites within the public and private sector (both domestic and foreign) attempt to take control of sectors of the state for their own purposes, largely facilitated through political corruption. While numerous examples of state capture have taken place in societies in transition, the South African state cannot be characterised in the same manner. However, persistent allegations of political corruption continue to adversely affect national integrity and are instructive. Consider the following five high-profile examples:

- *The arms deal:* The multi-billion rand arms deal has dealt several blows to the nascent integrity system. The alleged collusion between senior elected and appointed leaders and notoriously corrupt European-based arms manufacturers has resulted in bitter feuds between democratic institutions and within the leadership of the ruling party. The result has been a higher level of political instability.
- *The national commissioner of police:* The national commissioner of police faces charges of corruption and other criminal charges as a result of his alleged links to organised crime figures. This has done the SAPS a massive disservice at a time when citizens are feeling increasingly vulnerable to violent crime after years of sustained high levels of violence. Allegations that he may have received political protection from the national executive, which may have stalled the process of his arrest, have equally shaken public confidence in political institutions.
- *Travelgate:* The alleged involvement of a significant number of members of parliament (MPs) in defrauding the parliamentary travel voucher scheme has inevitably impacted on the integrity of the institutions. The fact that many of the MPs have not faced further criminal charges or dismissal by their respective parties again sends an incoherent message to the public about standards of ethical integrity.
- *Political party funding:* The unregulated funding of political parties has created ample opportunity for the national interest to be subverted in the interest of either a political party or a narrow grouping that controls fundraising within the party. Some of the obvious examples include the rogue businessman Brett Kebble and, more recently, the exposure of Chancellor House, a ruling party front company of which members of the party's executive claim to have no knowledge. (Paton, 2007) Since Chancellor House has been linked to multi-billion rand state tenders, the new ANC treasurer-general has announced that it will no longer benefit from state contracts. The lack of vocal support for the regulation of party funding also does not suggest that opposition parties would conduct themselves any differently if they were to come to power.

Investigative journalists play a central role by exposing allegations of political corruption that state agencies are often hesitant to investigate.

There can be no complacency if we wish to prevent a culture of impunity from undermining our culture of freedom.

- *Black economic empowerment:* While BEE has shown dividends to some, its application has also seen the concentration of wealth in the hands of a small number of individuals. The fact that almost all these individuals are politically connected has not gone unnoticed by a public who are weary of a system of patronage that only benefits the rich and politically connected.

The danger is the impact of such corruption at provincial and local levels of government, where corrupt public officials and businesspeople have access to a substantive portion of public expenditure. According to ANC deputy-president Kgalema Motlanthe, "This rot [of corruption] is across the board… Almost every project is conceived because it offers opportunities for certain people to make money. A great deal of the ANC's problems are occasioned by this." (Paton, 2007)

The problems of the ruling party are of course also those of South Africa and many citizens share Motlanthe's concerns. The 2007 Transparency International Global Corruption Barometer revealed that South Africans are pessimistic, with 67 percent believing that corruption would increase in the next three years, and 54 percent saying that the government's effort to fight corruption is ineffective. Political parties and the police were the sectors perceived to be affected most by corruption (a joint score of 3.8 out of 5), followed by parliamentarians and home affairs (a joint score of 3.6 out of 5). In contrast, only 3 percent of respondents reported paying a bribe to obtain services. This supports the relative insignificance of widespread petty corruption in South Africa.

Table 1: National Government: Allegations of corruption

Department, Region	Senior Officials or Managers Implicated			Monetary Loss or Value of tenders
	Elected	Public	Business	
South African Police Service (SAPS)	-	1	1	unknown
Presidency – Former Deputy President	1	-	1	unknown
Communications (Post Office)	-	1	1	R12m
Land Bank	-	1	1	R1.1m
SABC	-	1	-	R1.8m
Communication (SABC)	-	1	1	R32m
Minerals & Energy (PetroSA)	-	2	-	R1.3m
Minerals & Energy (PetroSA)	-	1	1	R11m
Correctional Services	corporation			R18m
Correctional Services	unknown			R5.1m
Correctional Services	corporation			R10m
Arts and Culture	unknown			R13.4m
SAPS	-	6	-	R2.5m
Communications (Post Office)	-	1	-	R60m
South African National Defence Force (SANDF)	-	2	-	R1.1m
SANDF	1	1	-	R839m
Housing	unknown			R6.8m
South African Revenue Service	-	-	1	R2.9m
Land Bank	-	2	-	R27m
Parliament, National	60 (MPs)	-	-	R24m
South African Revenue Services (SARS), Tshwane	-	2 (+11 others, positions unknown)	-	R5m
TOTAL				**R1 074m**

For 1 July 2007 – 30 June 2008 (as reported by the media)

It is impossible to gain a comprehensive understanding of political corruption in South Africa. By its very nature, corruption is secretive and that which is officially reported and/or prosecuted does not fully reflect the extent of the phenomenon. However, media reports may prove helpful. In order to assess this, the Corruption and Governance Programme of the ISS analysed all reported instances of political corruption, as collated by the Co-operative for Research and Education clipping service from 1 July 2007 to 30 June 2008. Fifty-six corrupt deals costing R1million or more were drawn from over 2 000 clippings. The focus is on the public sector; however, it is clear that the private sector is also implicated throughout.

All clippings relating to bureaucratic corruption were excluded and only media reports alleging the involvement of key decision makers were included. This includes:

Table 2: Provincial Government: Allegations of corruption

Department, Region	Senior Officials or Managers Implicated			Monetary Loss or Value of tenders
	Elected	Public	Business	
Local Government, Gauteng	1	-	-	R100m
Health Department, Eastern Cape	-	9	-	R1m
Local Government and Housing, Limpopo	-	1	1	R323m
Health Department, Limpopo	-	1	-	R350m
Education, Eastern Cape	-	5	-	R20m
Social Welfare, KZN	-	-	1	R14m
Education (Feeding Scheme)	-	-	1	R100m
Health Department, KZN	1	-	-	R1.5m
Sport/ 2010, Mpumalanga	-	1	-	R45m
Education, Eastern Cape	1	-	-	R100m
Education, Eastern Cape	1	2	-	R87.5m
Limpopo	1	-	1	R500m
Correctional Services, KZN	-	1	-	R1.1m
Northern Cape	-	-	1	35m
Economic Growth Agency and Director-General, Mpumalanga	-	1	-	R130m
Health, KZN	-	1	-	R5m
Health, KZN	-	1	-	R1.5m
Land Claims Commission, Limpopo	-	1	-	R2.5m
Local Government, KZN	1	4	-	R1m
Social Services, KZN	-	1 (+1 former)	1 private citizen	R17m
Safety & Security		1	1	R500m
Social Development	-	-	-	R3m
Health, KZN	-	1	-	R50m
Communications & Economic Empowerment Commission, Mpumalanga	1	1	-	unknown
Eastern Cape	4	-	-	R200m
Parks & Tourismm, North West	-	1	-	R3.5m
Director-General, Limpopo	1	-	1	R16.9m
Labour, Limpopo	-	1	-	R9.8m
Health & Social Services, Mpumalanga	-	7	-	R1m
TOTAL				**R2 619.3m**

For 1 July 2007 – 30 June 2008 (as reported by the media)

It is impossible to gain a comprehensive understanding of political corruption in South Africa. By its very nature, corruption is secretive.

- senior elected official – any elected official at or above the level of councillor (local), MPL (provincial) or MP (national)
- senior public officials – members of the public service at the level of director/or equivalent and above
- senior business managers – managers in the private sector, including senior management and directors.

At the outset, it should be stated that the figures provided in Tables 1-3 are merely indicative and do not provide a quantifiable estimate of the impact of political corruption. There are three important issues to consider when evaluating the data:

- The clipping service has a limited scope and does not provide comprehensive coverage of all provinces.
- The data relies only on reported media allegations. The researchers did not have the capacity to track every case in order to understand if it was resolved and relied on the media to do so. There may be some of these cases that have been/will be resolved and those implicated cleared.
- The indication of monetary loss/value of tenders is not necessarily a true reflection of the impact of corruption. Where the loss is not stated, the value of a tender that has been compromised is included. It is difficult to ascertain if the tender may have been awarded in any event, or to what extent it was inflated if at all. It also does not take into account the human impact of corruption that cannot be quantified in figures (such as exclusion from opportunities and access to services).

What is instructive from the data gathered is not the total value of tenders and monetary loss (over R3.8 billion); rather, it is the very small group of influential individuals involved. They have access to power and can manipulate both policy outcomes and policy implementation to the advantage of those within their own network. The beneficiaries are therefore usually a small group or influential individuals who can use their position both to continue such practices if undetected, and, if not checked by independent institutions, to block attempts to investigate or prosecute their activities.

WHAT MUST BE DONE TO STRENGTHEN THE NATIONAL INTEGRITY SYSTEM?

Given the potential impact of political corruption, there are important issues that should be considered in order to strengthen the national integrity system.

A single national anti-corruption agency?

South Africa has developed an advanced framework of law, strategy and institutions that have a mandate to combat corruption. Importantly, the cabinet *lekgotla* endorsed a recommendation of the Public Service Commission in 2002 that the country should opt for an array of specialised anti-corruption institutions:

- *constitutional and oversight bodies* that have a special mandate in terms of Chapter 9 of the Constitution. These include the auditor-general, public protector, Public Service Commission and the Independent Complaints Directorate
- *criminal justice agencies*, including the SAPS, NPA, Asset Forfeiture Unit and Special Investigations Unit (Scorpions)
- *other stakeholders*, which include the department of public service and administration (DPSA), National Intelligence Agency, South African Revenue Service and the cross-sectoral National Anti-Corruption Forum (NACF).

The executive, through the DPSA, is responsible for convening the monthly anti-corruption co-ordination committee (ACCC). In some cases, a lack co-ordination among the agencies has lead to tension, such as between the Scorpions and the SAPS. However, it is imperative that the ACCC is made to work more effectively.

Table 3: Local Government: Allegations of corruption

Department, Region	Senior Officials or Managers Implicated			Monetary Loss or Value of tenders
	Elected	Public	Business	
Land Development, Ekhuruleni Metro	1	-	1	R93m
Makuduthamaga Municipality, Limpopo	-	2	-	R2m
Emalahleni Municipality	-	1	-	R26m
Makuduthamaga Municipality	3	-	1	R30m
TOTAL				**R151m**

For 1 July 2007 – 30 June 2008 (as reported by the media)

South Africa has thus chosen the so-called "multi-headed dragon" rather than the single anti-corruption agency model. An important reason for this is the political risk of such a single agency being "captured" by an organised criminal network in government or business. It is wiser to spread risk across a number of agencies and pick battles accordingly.

There is also a growing realisation that, while donors pushed the idea of "single anti-corruption" agencies across the continent a few years ago, this is by no means a panacea for corruption. In fact, such agencies collapse where they operate in a vacuum, outside of a functioning national integrity system. Without a functioning independent judiciary, parliament and media, no anti-corruption agency can sustain its work. The solution must be systemic and it relies on increased state and non-state capacity to tackle corruption. Research undertaken by the Christian Michelsen Institute into anti-corruption agencies in Africa has pointed towards the general inappropriateness of a single anti-corruption agency model (*à la* Hong Kong, New South Wales, Singapore or Botswana) with a mandate to investigate, prosecute and raise awarenes Doig et al., 2005). These are better suited to cities, states or countries with smaller populations and lower levels of corruption than complex African nation states.

While this option is attractive to politicians – who can use a "super agency" to prove to their electorate and foreign capital that they are "serious" about corruption – it is unlikely that this will have a sustainable positive impact on tackling corruption and political corruption in South Africa.

Strengthening the independence of institutions

At the first Africa Forum on Fighting Corruption, which took place in Ekurhuleni in early 2007, delegates from the vast majority of African governments asserted the importance of strengthening the integrity and independence of the courts and oversight bodies including parliaments, inspectors-general, public protectors, auditors-general and public service commissions in the fight against corruption. They went on to recommend "increased support to independent national anti-corruption bodies and related law enforcement bodies, including judicial bodies and, where national anti-corruption bodies do not exist, the speedy establishment of such bodies".

These resolutions, which the South Africa government helped draft, mirror aspects of key anti-corruption conventions such as the African Union Convention on Preventing and Combating Corruption (2003) and the United Nations Convention Against Corruption (2003).

However, it is important for the control of political corruption that some of the sectors and institutions that make up the national integrity system must be protected from political interference and therefore enjoy a minimum guarantee of independence.

The final recommendations on strengthening the national integrity system are also directed towards these institutions and sectors where more independence – and less political interference – can seriously deter political corruption.

The judiciary

The judiciary and the Constitutional Court in particular have been the focus of sustained verbal abuse from politicians recently. Much of this is linked to the allegations of corruption involving Jacob Zuma. It is imperative that the independence of the judiciary be maintained and the integrity of the institution itself promoted. This must be a key focus for progressive leaders within civil society, the state and the private sector.

It is equally important that we ensure all allegations of corruption are dealt with by the judicial system and reject extra-judicial processes – such as the proposed amnesty for those implicated in the arms deal. This will not only serve to undermine the authority of our justice system, but in all likelihood will do little to break any corrupt networks within the public and private sector that may have established themselves in South Africa and abroad.

An independent anti-corruption agency
While the multiplicity of anti-corruption agencies is beneficial, there is also need for a specialised agency that is protected from executive intervention. The Scorpions presently fulfil this role, both in terms of their mandate and because the president cannot remove from office the national director of public prosecutions (who is ultimately responsible for the Scorpions). A decision to locate the Scorpions within the SAPS and under the direct control of the national commissioner of police will strip the unit of any independence. Draft legislation before parliament does not mention corruption among the tasks of the new unit, as it is understood that it will focus on organised crime and pay little attention to corruption. Under such an arrangement, we cannot expect the state to effectively tackle political corruption. While unintended, the real beneficiaries of this decision will be corrupt individuals within business and government who wish their activities to go unchecked.

Media
While freedom of expression and access to information is guaranteed by the Constitution, draft legislation could undermine the independence of the media. The proposed Protection of Information Bill may have the unintended consequence of censoring public expression and criminalising investigative journalists who play a central role by exposing allegations of political corruption that state agencies often hesitate to investigate. Every effort must be made to guarantee journalists' right to expose political corruption.

Parliament and the electoral system
There have been repeated calls from within civil society for a shift away from the centralised party list system, currently used to appoint MPs, towards a system of constituency representation. A major criticism of the system of proportional representation is that it places enormous power in the hands of political party bosses – which ensures that elected representatives are largely accountable to them and not the electorate. This undermines parliament's independence and means that MPs may very well be reluctant to tackle political corruption when it leads back to the small group of individuals at whose mercy they serve. A reform of the system is therefore essential if parliamentarians – particularly from the ruling party – are to be free from control by members of the executive.

Independent Electoral Commission (IEC)
The independence of the IEC is key to ensuring faith among the electorate in the electoral process. However, the IEC should be mandated through legislation to play a direct role in monitoring the full disclosure of private funding of political parties. This should include monitoring the activities of party-owned companies which cannot be allowed to benefit from state tenders. The regulation of this practice would make a major contribution towards limiting the corrosive impact that private political party funding has on public choices.

CONCLUSION

For the immediate future, South Africa must invest a great amount of effort in keeping political corruption in check. This manifestation of corruption poses the greatest threat to human development and democracy in South Africa. It is clear that a single anti-corruption institution is inappropriate since it risks being captured by corrupt groups, especially where it operates in isolation from the national integrity system.

We have established a sound framework to promote national integrity. However, it is evident that the third phase of combating corruption poses new challenges unimagined only a few years ago. Now our immediate attention must shift towards strengthening aspects of the existing national integrity system. The most immediate priority is for greater independence of key institutions. Without this, political corruption may become entrenched.

There can be no complacency if we wish to prevent a culture of impunity from undermining our culture of freedom. Government, business and civil society will have to move away from sloganeering towards the vigorous promotion democratic accountability. The alternative is bleak. Our task is clear.

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New forms of super-exploitation

in the post-apartheid labour market

By **Simon Kimani Ndungu**

The author is head of the Labour Market Transformation Programme at the National Labour and Economic Development Institute (NALEDI) in Johannesburg

Employment data released by Statistics South Africa (Stats SA) in its March 2008 Labour Force Survey (LFS) demonstrated what can only be described as impressive employment growth for a developing economy. These statistics indicated that, in the year to September 2007, the South African economy created a total of 433 000 jobs, while in the six-year period between September 2001 and 2007, the economy created slightly over two million net new jobs. Significantly, approximately 92 percent of all jobs (1.8m) were created in the formal sector outside of agriculture, with the rest, about 300 000, being in the informal sector. (LFS, March 2008:x) Assuming these statistics to be correct, it would imply that our economy is not only buoyant and overwhelmingly formal, with a small and almost insignificant informal sector, but also that the majority of jobs created in the last decade or so are decent and sustainable. However, an examination of how Stats SA defines the "formal" and "informal" sectors reveals the true character of jobs in the economy and the forms of super-exploitation that define the post-apartheid labour market.

In this article, I look at how the restructuring of the post-apartheid labour market has continued the exploitation of cheap labour by capital to maximise profits. I examine the deficiencies inherent in our conception of "formal" and "informal" sectors, and how this translates into an exaggeration of both the numbers and the quality of jobs in the economy. In the final analysis, I argue that the legalised super-exploitation of cheap labour under apartheid has given way to the super-exploitation of cheap labour through flexible, irregular, and loose work arrangements in the post-apartheid workplace.

Not only is this dualism false, it also conceals the fact that the two sectors are really aspects of the same economy.

CONTINUITIES AND DISCONTINUITIES

The apartheid economy was underpinned by pervasive exploitation of black labour through a range of legal mechanisms including the creation of homelands in the rural areas and townships in the urban areas, strict urban migration control, limited skills training and prohibition of trade union rights. While these legal devices have now been abolished, the institutions and mechanisms of exploitation fostered by more than four decades of apartheid rule continue to define the post-apartheid workplace, and the changing nature of work has ensured that the exploitation of cheap labour continues, albeit in new forms.

The restructuring of the post-apartheid economy has coincided with the reorganisation of modes of production in the global economy, with the result that the post-apartheid workplace has been subjected to an avalanche of negative forces, including those related to liberalisation and privatisation. The tendency of global economic forces has been to facilitate neo-liberal economic reforms in the nation state. With this, "work and employment have been significantly restructured as employers have sought ways to reduce labour costs, evade new laws, or take advantage of flexibility provisions in new labour legislation in order to make their workplaces more 'internationally competitive'". (Clarke, 2003:2) In South Africa, employers have also been quick to restructure employment in the bid to circumvent labour legislation. (Bezuidenhout and Fakir, 2006; Theron, 2008)

These changes have seen a rapid expansion of the informal sector at the same time as the number of jobs in the formal sector has shrunk. The bulk of jobs created in the last few years are what van der Westhuizen (2003) terms "precarious, insecure [and] with longer hours for lower remuneration in unsafe conditions". In addition, since most of these jobs are atypical or non-standard, they "fall outside coverage of labour laws, social security legislation and collective bargaining agreements". As the post-apartheid labour market continues to restructure and extract ever higher margins of profit from labour, one far-reaching consequence is the displacement of confrontation, antagonism and disorder into the family, the household and the community. Consequently, the burden of social reproduction is increasingly being borne not by the employer, but by workers themselves. (Webster and Von Holdt, 2005:31)

Traditionally, union organising in South Africa has centred on formal workers, and unions have rarely ventured beyond this core stratum to organise the "non-core" and "periphery" strata of workers. At its 2006 national congress, recognising that the changing nature of employment relations and the rise in atypical employment posed a serious challenge to the relevance and survival of unions, the Congress of South African Trade Unions (COSATU) adopted a resolution calling for a "concerted attempt within affiliates and the federation… to organise the unemployed, informal workers and casuals".

Whether unions will succeed in reaching these strata of workers is a matter of conjecture. Organising strategies remain rooted in the age-old model of recruiting from a now shrinking pool of workers congregated at the employer's workplace. With the rise of services as the dominant sector of the economy, the identity of the employer has not only become ambiguous, but the workplace has also been displaced.

OLD WINE IN NEW WINESKINS

The growth of atypical or non-standard employment marks a continuation of the exploitation of cheap black labour first fashioned and institutionalised in the apartheid workplace. The flexibility of black labour under apartheid has been replaced by the flexibility of non-standard labour in the post-apartheid labour market. The modern South African workplace is no longer divided along the formal/informal axis – it is highly segmented with zones of "inclusion" and "exclusion" (Webster and von Holdt, 2005) and defined by notions of identity and belonging among the various categories of workers. (Kenny, 2007)

We examine below the three most potent forms of labour exploitation in the South African workplace today: casualisation, externalisation and informalisation.

Casualisation

Casualisation is often used in a generic way to describe all forms of non-standard work, but it is a distinct and dominant feature of the post-apartheid labour market. A "casual" employee still works for the main employer, but the employment is not permanent, it is not indefinite and it is not full time. On the date the contract ends, employment is terminated, but there is no dismissal. Although, from the mid-1990s, casualisation has become a defining feature of virtually all sectors of the South African economy, it is more pronounced in the services sector, where many previously indefinite, permanent and full-time jobs have been converted into fixed-term, short-term or part-time employment.

In the wholesale and retail trade, the 1993 introduction of the flexibility and mobility agreement between Pick 'n Pay and the South African Commercial, Catering and Allied Workers Union was hailed as a groundbreaking innovation to help save jobs in the retail sector. Be that as it may, it has not necessarily resulted in an improvement in the quality of existing or new jobs created in the retail sector. On the contrary, employers have taken advantage of the flexibility arrangements allowed by the Basic Conditions of Employment Act (BCEA)'s 2006 Sectoral Determination No. 9 (wholesale and retail trade sector) to cut down considerably the number of permanent full-time workers.

In the construction sector, companies prefer to hire limited-duration contract workers (LDCs). Like the flexi-workers in wholesale and retail, LDCs often work long hours – including at night and weekends – in order to accumulate enough wages. They have few or no benefits such as leave, provident fund and medical aid, and they are often exposed to hazardous working conditions. Other sectors – such as agriculture, security and manufacturing – have followed suit. In the horticultural sector in the Western Cape, the size of the permanent workforce has been reduced by as much as 60 percent, and the part-time and contract workers who are the new face of horticultural labour have insecure jobs, reduced wages and are highly exploited. (Du Toit and Ally, 2003)

Externalisation

Externalisation has become another dominant feature of the post-apartheid labour market. Here, the *employment* contract is replaced by a *commercial* contract so that the worker is, in legal terms, not an employee but an "independent contractor". The main types of externalisation are sub-contracting, labour only sub-contracting (prevalent in the construction sector), outsourcing, labour broking (prevalent in the services sector) and outworking or home-working (found to a large extent in the clothing/textile sector).

Our labour law was developed largely on the basis of the primary and secondary sectors, and, as such, on the existence of a dual employment relationship between an employer and an employee. This framework suited much of the colonial and apartheid economy, but the post-apartheid economy has coincided with the rise of services as the dominant sector. Laws and regulations that were designed for the primary and secondary sectors are not necessarily sufficient to regulate employment relationships in a modern labour market with services as its engine of growth. (Theron, 2008)

Our labour law makes a clear distinction between independent contractors and employees; independent contractor employment relationships are regulated by the common law of contract. Under the BCEA (Act 75 of 1997) and the Labour Relations Act (LRA, Act 65 of 1995), independent contactors are specifically excluded. They enjoy no protection of the labour law. Such workers are not covered by the legislated maximum limit on working

The official definition of what is "formal" or "informal" obscures the reality of poor quality, low wage and unsustainable jobs that exist in both sectors.

hours, limits on overtime work, or entitlement to leave, fair dismissal and retrenchment pay. They also do not enjoy workplace rights, such as the right to organise and to collective bargaining.

The potential benefits offered by this loophole have not gone unnoticed by employers. In the road transport, private security and textile sectors, many workers are employed as "independent contractors", although in actual fact they are wholly under the direction of their employers and totally dependent on them for their income. Despite changes to the LRA to deal with "disguised employment" (section 200A in 2000), a protracted contestation has developed over the precise determination of the existence of an employment, rather than an independent contractor, relationship.

Since 2003, the Council for Conciliation, Mediation and Arbitration (CCMA) has dealt with over one hundred cases of this specific problem. Remarkably, for some of the awards handed down by CCMA commissioners, the mere presence of the term "independent contractor" in the contract of employment closes their minds against further inquiry into whether what appears to be an independent contract may actually be employment in disguise. Inevitably, such cases are thrown out on the basis of the CCMA having "no jurisdiction" over the matter.

In labour broking, the conventional binary relationship of employer-employee is replaced by a triangular employment relationship where an intermediary (labour broker) positions itself between the employer, who is then designated a "client", and the employee. The conundrum thrown up by this new form of labour exploitation is borne out most powerfully by the manner in which our labour law fails to pinpoint the real employer in a triangular employment relationship. Both the LRA and BCEA denote the labour broker – who is a mere intermediary – as the employer, rather than the client, thereby creating what Theron (2008) calls a "fiction".

This "fiction" of the labour broker as employer has resulted in workers being denied many of their basic labour rights, including the right to organise and freedom of association. Bezuidenhout and Fakir (2006), in a case study of contract cleaning workers at the University of the Witwatersrand employed by a large company called Supercare, demonstrate how this triangular employment relationship has resulted in the intensification of work, reduction of wages and benefits and denial of the constitutional right to organise. To cope, many of these workers have been forced to adopt survival mechanisms, including informal income-generating activities, as the burden of social reproduction has progressively been shifted from the real employer to their own households.

Informalisation

Mention of the word "informal" immediately springs to mind its constructed opposite, the "formal" sector. For more than half a century, the concepts of "formality" and "informality" have underpinned intellectual, theoretical, empirical and policy discussions on the poor and development. Guha-Khasnobis et al (2005) have traced the "dual economy" debate to the 1940s, when anthropologists such as Boeke presented the idea of a developing economy as a duality that consisted of a market economy and another economy outside of it. From the 1950s onwards, the two-sector economic model initially conceptualised by Arthur Lewis became the predominant framework for analysis and policy interventions in developing economies. This has persisted well into the new millennium. An emerging thread in all these debates is that the formal sector is regulated and organised while the informal is not.

In South Africa, the formal vs. informal duality informs policy responses to economic planning, and it is this dual notion that underpins the government's argument of a "first" and a "second" economy. President Mbeki (2003) has described South Africa as having a "first world economy", which is modernised and integrated into the world economy, and a "third world economy", which is poor and sits side by side with the first economy. The two economies, he argues, are "structurally disjointed" and what is required are interventions in the second economy that would lift it up and perhaps eventually dissolve it into first economy.

A strict "formal" and "informal" dichotomy, or a two-tier labour market approach, or even the "first and second economy" divide do not help us to understand the true nature of the labour market. Potts (2007:2) argues that not only is this dualism false, it also conceals the fact that the two sectors are really aspects of the same economy, and that they are underpinned by the same economic forces.

For many people, the informal sector connotes that part of the economy that is, strictly speaking, removed from the main economy. It is the sector where workers can easily be absorbed when they lack or lose their formal employment. In a complex modern economy, it is not easy to define with clarity where the informal sector begins and where it ends. This is because the two sectors interface and even overlap in many cases. By nature, the informal sector provides poor, vulnerable and unsustainable jobs. There is a complete absence of the rights and benefits associated with jobs in the formal sector such as regulated hours of work, paid leave, the right to collective bargaining, provident funds and medical aid.

Stats SA has adopted state regulation as the index to distinguish between the formal and the informal sectors. In the March 2008 LFS, the formal sector is defined as "all businesses that are registered in any way" while the informal sector "consists of those businesses that are not registered in any way. They are generally small in nature, and are seldom run from business premises. Instead, they are run from homes, street pavements or other informal arrangements". (xxvi) Whether a business is formal or informal depends on "the self-perception of respondents". (x)

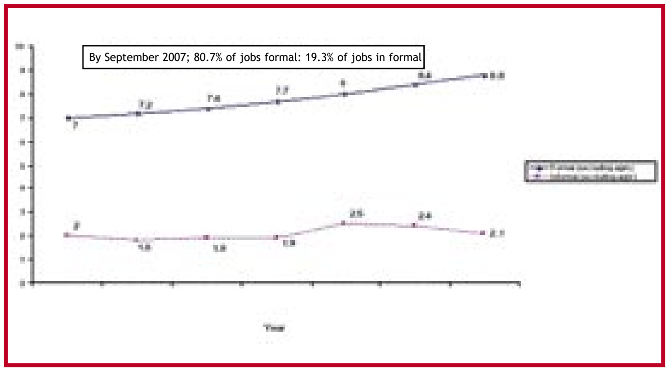
Here, one immediately realises the problem inherent in official labour statistics. Not only is the definition of what is formal or informal subjective, it also focuses on only one characteristic of a job: the registration status of an enterprise. Whether an employer is registered or not is something respondents may or may not know. Because there has been a dramatic restructuring of the post-apartheid workplace, the official definition of what is "formal" or "informal" obscures the reality of poor-quality, low-wage and unsustainable jobs that exist in both sectors.

For most of the 1990s and early post-millennium period, a disturbing trend of the South African labour market was its continuous shedding of jobs in most of the traditionally dominant sectors, such as agriculture, mining and manufacturing. Alongside this tendency in employment reduction, the informal sector experienced a rapid expansion, rising from about 0.9 million to approximately 1.9 million workers in the five-year period between 1997 and 2001.[1] (Webster, 2003) In fact, some authors (Clarke, 2003) suggest that employment in the informal sector exploded, with jobs increasing from about 1.8 million in 1997 to slightly over 3.1 million in 2001.

As a result of Stats SA's definition, informal employment has significantly been understated while formal employment has always been overstated. (see Figure 1) The chart suggests that, by the end of 2007, approximately 81 percent of all jobs in the South African labour market could be described as formal, while only about 19 percent were informal. This, we need to remark, is based purely on what respondents know or think they know about the registration status of their employers.

In the horticultural sector in the Western Cape, the size of the permanent workforce has been reduced by as much as 60 percent.

Figure 1: Official formal and informal employment in the SA labour market

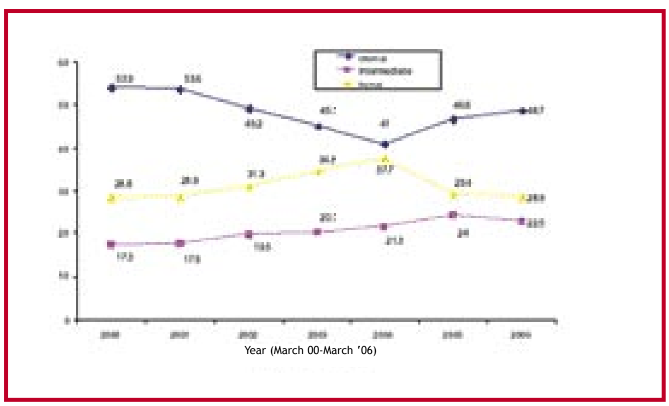


Source: LFS, March 2008 (figures have been rounded)

But if we abandon the employer registration criterion and look instead at job characteristics (e.g. presence of a written contract, leave, pension fund and medical aid among others), we see, as shown by Figure 2 below, that the South African economy has in fact become extensively informalised.

Approximately half of all jobs are informal, almost a quarter of the jobs are neither formal nor informal but can best be described as "intermediate", and only about 29 percent of the jobs can be described as formal. This means that, of the 13.2 million workers who are currently in the South African labour market,[2] around 6.4 million of them (48.7 percent) can actually be described as informal workers, about 3 million of them (22.5 percent) can be described as intermediate workers, while only slightly over 3.8 million of them (28.9 percent) can be said to be formal.

Figure 2: Formal, intermediate and informal jobs by employment characteristics



Source: NALEDI and LEP (2008). What kind of jobs? Creating opportunities for decent work. (Forthcoming)

There are no authoritative studies showing a direct correlation between the decline of the formal sector and the expansion of the informal sector but, given the inadequacy of the South African social welfare system, it is safe to conclude that those who have been "expelled from the point of production" in the formal sector are more likely to turn to the informal sector for survival.

CONCLUSION

Globally, labour markets continue to undergo complex processes of continuity and change, and the South African labour market is no exception. Since the mid-1990s, the South African labour market has been reshaped to conform to the demands of a modern developing economy, while at the same time seeking to abandon its apartheid birthmarks. In the process, much of the hostile and adversarial relations that defined the apartheid workplace have given way to multilateral labour institutions and consensus mechanisms for the pursuit of "economic development, social justice, labour peace and the democratisation of the workplace". Fourteen years after the formal dismantling of apartheid, the South African labour market remains highly segmented and exploitative.

Though different in form, the patterns of exploitation that characterised the apartheid labour market have mutated into new forms of exploitation of cheap, largely black labour through the mechanisms of casualisation, externalisation and informalisation.

NOTES

1. These figures should be regarded as illustrative rather than definitive of the growth of the informal sector in South Africa.
2. This is using the official or narrow definition of employment/unemployment, which excludes those who are too discouraged to seek work. By September 2007, the official labour market was made up of 17.2 million workers, of whom 13.2 million were employed and 3.9 million were unemployed. The number of discouraged work seekers stood at 3.4 million.

Independent contactors enjoy no protection of the labour law.

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A short history of the Directorate of Special Operations

By **Chris Derby Magobotiti**

The author is a researcher with the ANC parliamentary caucus unit, specialising in safety and security and correctional services issues

President Mbeki's 2008 state of the nation address, Minister of Safety and Security Nqakula's call for the "revamp of the criminal justice system" and the proposal to integrate the Directorate of Special Operations (DSO, popularly called the Scorpions) can be seen as an attempt to promote the co-ordination of South African law enforcement agencies in order that they complement one another and to develop a co-ordinated approach towards organised crime, in line with the recommendations of the Khampepe Commission and constitutional imperatives.

The South African Police Service (SAPS) Amendment bill is currently before parliament. Proposed amendments include the creation of a special unit in the SAPS, called the Directorate for Priority Crime Investigation (DPCI), which will incorporate the SAPS and DSO members to strengthen the fight against organised crime. Many questions have been raised concerning the new unit.

The debate concerning the DSO seems to have political, legal and constitutional underpinnings. It touches on

Evidence suggests that organised crime grows rapidly in periods of political transition and violence.

the power of the legislative process and the roles and mandate of political parties and parliament as institutions of a constitutional democracy.

BACKGROUND

During apartheid rule, the police force was a militaristic, unaccountable and aggressive institution that was used as a political instrument. Part of the state strategy was to use the notion of the "rule of law" through the continuous enactment of reactive legislation to ensure that law enforcement agencies effected such rule without question. (Foster et al., 1987:27) Apartheid law enforcement agencies were not much concerned with common law crimes such as murder, rape, assault and organised crime, but were used by the state to deal with its opponents. (Lobban, 1996:5) For instance, law enforcement agencies in the Western Cape used gangsters to attack anti-apartheid activists. In return, the gangs' activities were often not policed. As a consequence, according to Shaw (1998), organised crime grew rapidly during the transition in 1990s and law enforcement agencies had neither the necessary expertise nor resources to deal with it.

Also, evidence suggests that organised crime grows rapidly in periods of political transition and violence. When state resources are concentrated in certain areas, gaps emerge in which organised criminal groups may operate and form corrupt associations.

Policing has undergone some changes since the 1994 democratic breakthrough, in accordance with such policy documents as the 1994 Reconstruction and Development programme (RDP), the 1993 Interim Constitution and the National Crime Prevention Strategy (NCPS) of 1996. These emphasised principles of community participation in policing in order to promote crime prevention. At this stage, the government regarded democratisation as key to the legitimacy of state policing. Its principle goal was to prioritise police effectiveness in the field of safety and security.

Dixon (2000, 12) has observed a shift in government attitude towards the police, which was signalled in the 1998 White Paper on Safety and Security. It states: "The current context in which policing policy is made differs from that in 1994. The police (SAPS) need to be viewed as trusted vehicles of law enforcement in the new democracy." (DSS, 1998:24)

This endorsement of reactive policing marked a departure from the earlier emphasis on community policing and community participation, although the document claims that both formed the bedrock of effective law enforcement. (DSS, 1998:5)

After the 1999 election, the late safety and security minister, Steve Tshwete, announced the establishment of the DSO as an elite unit with the capacity to investigate and prosecute priority crimes, in line with the specific needs and conditions of South Africa.

INTERNATIONAL LESSONS

Studies commissioned to investigate and consider proposals for the implementation of an anti-corruption campaign recommended an independent and centralised agency, similar to that found in Hong Kong, Singapore, New South Wales, Botswana and Australia. (Camerer, 1999) Hong Kong's independent commission against corruption (ICAC) was widely cited. With powers to investigate, search and seize property, ICAC also had no need to establish a *prima facie* case before it acted. With Hong Kong's adoption of a bill of rights in 1991, ICAC operations were seen to violate individual rights and to be unaccountable. As a result, a number of amendments were made to prevent the abuse of power and to ensure greater accountability.

The Hong Kong experience demonstrates the tension between law enforcement and issues of rights. When law enforcement agencies embark on aggressive, confrontational policing, they may offend their society's commitment to the protection of human rights. Another

important lesson from ICAC is the need to amend relevant legislation to ensure that policing operations are in line with the bill of rights and national interests. Collective wisdom shifts with the changing need of the times. It also represents an attempt to bring together different agencies for greater co-ordination in the fight against the scourge of corruption and crime. This same tension is evident in the fight against crime in South Africa's constitutional democracy. It is a fundamental tension that has engulfed criminal justice debates over the years and continues to this day.

OPERATIONS OF THE DSO

On 25 June 1999, President Mbeki announced that a "special and adequately staffed and equipped investigation unit will be established urgently to deal with all national priority crimes." On 8 July, the minister of justice and constitutional development announced the establishment of the DSO. On 1 September, the DSO was launched in Cape Town as a unit to deal with organised crime. Its identified priorities were:

- urban terror and gang violence in the Western Cape
- political violence in KwaZulu Natal
- vehicle hijacking in Gauteng
- taxi violence in the Eastern Cape.

The DSO, as part of national prosecuting authority (NPA), derives its mandate from section 179 of the Constitution. The need to fight organised crime is clear. The work and achievements of DSO are without doubt. It has been recorded that DSO has had about 80 percent success rate, and it claims that its performance shows a 10 to 15 percent improvement in output over the period of three consecutive years.

However, the real success of law enforcement could be measured by the extent to which it can prevent and combat organised crime. Crime should be addressed in its causes. Recent police statistics and other agencies point to a continuous decrease in contact crimes during the 2006-2007 financial year. The same trend was evident in organised crime with relatively stable numbers, although it has taken violent forms. This called for better strategies to fight organised crime. The key question was: how best could the system be strengthened in the light of the challenges facing it?

On 1 April 2005, President Mbeki appointed Judge Sisi Khampepe to head a commission of inquiry to review the mandate and location of the DSO, and other matters pertaining to its functioning. The commission identified the weakness of co-ordination between relevant institutions as the major challenge. It found a lack of mechanisms to ensure that the DSO was accountable for its law enforcement activities. The report noted that several DSO officials had not been subject to thorough security screening, as is required by the law. It expressed concern with the manner in which the DSO publicised its investigations.

In summary, the commission recommended that co-ordinating mechanisms be established and the SAPS strengthened, with equivalent skills to fight crime. Another crucial recommendation was for the DSO to desist from making public announcements. It appears from the report that the Scorpions have operated with a wide discretionary power to investigate and prosecute (or decline prosecutions).

In criminology, it is commonly argued that corruption and other categories of white-collar crime have a devastating effect on the economy and the living conditions of the poor and the working class. The "revamped" South African criminal justice system should be able to detect, arrest, prosecute and punish white-collar criminals successfully. This is a big challenge, in part because the harm done to victims by white-collar crime is more indirect than in common crimes. (Magobotiti, 2001:14) Be that as it may, the current fragmented criminal justice system needs better co-ordination to enhance integrated approaches against organised crime.

The Hong Kong experience demonstrates the tension between law enforcement and issues of rights.

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The demise of ZANU-PF:

Lessons for South Africa

By **Palesa Morudu**

The author is a writer and an activist in Cape Town

ZANU-PF lasted barely a generation as the governing party in Zimbabwe. After 28 years, Zimbabweans have had enough. The economy is in a shambles and ZANU-PF's days are clearly numbered. How did it happen and so quickly?

ZANU-PF has governed Zimbabwe since 1980 on the basis of its record as a leader in the fight to end British colonialism and the white minority rule in what was then Rhodesia. A Maoist-influenced party with little tolerance for political dissent, even among those fighting for liberation, ZANU nevertheless emerged as the leading force in the guerrilla struggle against the racist regime of Ian Smith and to gain independence from Britain.

After 1980, the government led by Robert Mugabe introduced far-reaching social measures, such as universal healthcare and compulsory education, changing the lives of Zimbabweans for the better. Zimbabweans are among the most literate in southern Africa. But these "golden years" also witnessed the brutality of ZANU-PF: Mugabe slaughtered over 10 000 Zimbabweans in Matabeleland in the 1980s and dealt brutally with his political opponents.

And then came the economic squeeze. Zimbabwe, like much of the third world, has to contend with the complex and far-reaching effects of centuries of imperial plunder. Add to that falling commodity prices, unequal trading terms with the world's dominant economies, structural adjustment programmes – Zimbabwe used to be a "poster child" for the IMF – and a disastrous land reform policy, and the scene was set for a major economic crisis.

As in South Africa, the majority of agricultural land was in the hands of white commercial landowners at independence. This was the key challenge for Zimbabwe. But, for whatever reasons, ZANU-PF failed to carry out a thorough agrarian reform, and the former colonial master refused to meet its obligations under the Lancaster House Agreement. At the turn of the century, for what looked like pragmatic political reasons, Mugabe instead adopted top-down, "populist" land-policy measures, distributing land to the benefit of his ruling elite but providing no economic or technical assistance to the new farms. This plunged the country into a much deeper economic crisis.

A second crucial feature of the meltdown has been the calibre of the leadership – or rather, the misleadership. While a great many Africans justifiably identify with Harare's refusal to comply with instructions issued by

A possibility exists to now open up this space with the impending collapse of ZANU-PF.

Washington and London, Mugabe's nationalism has also served as a shield to deflect valid criticism at home and to protect the ruling party's position at the feeding trough.

The party has constructed a vast police and spying apparatus that is meant to intimidate Zimbabweans, and has little regard for democratic values, let alone opening up the space for ordinary citizens to become their own agents of change. Up until recently, the people of Zimbabwe were deliberately kept out of political activity, except when they had to deliver an election "victory" to Mugabe. A possibility exists to now open up this space with the impending collapse of ZANU-PF.

SOUTH AFRICAN ISSUES

The question of whether it "could happen here" is much debated. Some of this debate tends to ignore the very real differences between South Africa and Zimbabwe. There are, however, some important issues to consider.

First is the issue of ZANU-PF's historical political orientation, and the lack of clarity about the type of post-colonial state that was being constructed in Zimbabwe. Was the project to establish a socialist society, build a stable capitalist state or construct something in the middle? Reconstructing a post-colonial state is a conscious effort that requires clarity of mind from a party in leadership. Despite the ongoing contestation over the character of the post-apartheid state, the African National Congress has at least been consistent on the vision it has for South Africa: a non-racial, non-sexist, democratic state. Tactical formulations notwithstanding – "the best of social democracy and a developmental state" – democratic values are deeply enshrined in the constitution and our national consciousness.

The second is the confusion of radical rhetoric with a political programme. For this reason, Zimbabwean "war veterans" and youth brigades were activated in support of a non-existent militant programme that conveniently centred on the legitimate hunger for land. Mugabe's "land grab", in support of patronage and political blackmail, was all neatly camouflaged as a revolutionary measure. In the process, democratic rights were reversed and thuggery became widespread, used principally against the ruling party's opponents.

South Africa has sought to traverse its own challenging second decade of democracy with caution. And there are good reasons to be cautious, beyond the all too obvious examples of post-colonial independence gone wrong. Today, the world economy is characterised by financial turmoil, a slowdown in growth, international food insecurity and chaotic pricing of basic commodities. Combine all this with growing inequality and anger over the slow pace of delivery at home, and such conditions can quickly lead to catastrophic consequences. If South Africa fails to make progress in speeding up land reform, creating jobs and taking people out of abject poverty, populist and "socialist" rhetoric can begin to capture the popular imagination.

What is required is leadership that will continue to inspire confidence in the new South African project, the defence of our constitutional order and openness to criticism, however uncomfortable that may be. South Africans should keep the political space open, entrench our democratic gains and values, and remember that we – not some messiah – are the agents of our own change.

Finally, ZANU-PF confused the historical party of liberation with liberation itself, and began to act as if it *was* the state. Human beings, however, thrive in conditions of freedom and, as history has repeatedly shown, all police states will eventually shatter. ZANU-PF is now being shown the door. The jury is still out on whether the new guys will do any better.

In South Africa, the government must continue with the work to professionalise the public service; and the army, police and intelligence services should remain out of politics. And, as much as the executive serves at the pleasure of the ruling party, it is also accountable to the electorate. Never should the thin line between party and state be crossed.

South Africa should discuss what really took place in Zimbabwe – its history, its economy and its leadership – so that our democracy does not eventually end up in the same place.

The National Institute for Theoretical Physics is launched

By **Mosibudi Mangena**

The author is the South African minister of science and technology. He made these remarks at the launch of The National Institute for Theoretical Physics in Stellenbosch, 13 May 2008

In 2004, an international panel of experts found that, although the state of the South African theoretical physics was internationally competitive in some areas, it was generally fragmented. It recommended the establishment of a national theoretical physics facility. In response, my department has been working with the theoretical physics community to establish such a facility. Today, we celebrate the fruits of our efforts, and join a growing number of countries, including Italy, the United States, Canada, the United Kingdom, Australia, India and China, that have recognised the importance of creating structures to support theoretical physics.

You may wonder how South Africa, as a developing country, with so many pressing infrastructural and social needs, can afford to put money into supporting theoretical physics. The answer simply is: we cannot afford not to. In the past, South Africa relied heavily on the richness of its mineral resources to drive the economy. From now on, we must rely on the richness of the minds of our people to do this.

In today's knowledge and information age, South Africa must produce a steady stream of well-educated and highly skilled citizens, especially in mathematics and science, in order to meet her social and economic needs and to compete internationally. If we are to mature as a democracy, we must develop citizens who are capable of analytical and critical thought. Physics is the most fundamental of the sciences, the cornerstone of all technology. Studying physics both requires and develops analytical and critical thinking skills.

That is why we firmly support the development of physics in South Africa, and theoretical physics is one of its central components. In fact, in financial terms, theoretical physics is a bargain – almost all the money we provide goes directly into supporting people, since theoreticians need very little equipment.

WHAT PHYSICISTS DO

Physicists divide themselves into two broad groups, experimentalists and theoreticians. Experimental physicists create new knowledge by gathering and analysing data about the physical world. Theoretical physicists, on the other hand, work in two main ways. They either use the data collected by experimentalists to create mathematical models to explain the observations made by the experimentalists, or create mathematical models to predict phenomena, and suggest new experiments to be done.

A dramatic example of this second way of working was described earlier this year in *Time* magazine. According to the article, in 1964, British physicist Peter Higgs predicted the existence of a new particle, named the Higgs boson. If the particle was found, it would explain how everything in the universe comes to have mass. After 25 years of planning, experimental physicists in Geneva are hoping to find the Higgs boson later this year using the largest particle accelerator ever built.

If we are to mature as a democracy, we must develop citizens who are capable of analytical and critical thought.

Now, what kind of person would want to study theoretical physics? The Nobel Prize winning physicist, Gerard 't Hooft, says theoretical physics is for people like him who "are thrilled by the challenges posed by real science, and who are determined to use their brains to discover new things about the physical world that we are living in". For Gerard 't Hooft and many other scientists, the joy of discovery is its own reward.

Theoretical physics is also for people who are thrilled by using their brains to help describe and solve many of the complex problems in the world. The skills and knowledge used and acquired by those who study theoretical physics can be applied to a vast range of problems, such as mapping the spread of infectious diseases, understanding traffic flow, predicting the patterns of bird migration and forecasting the alarming effects of climate change.

GOALS OF THE INSTITUTE

One of the strategic goals of The National Institute for Theoretical Physics (NITheP) is to provide expertise that can feed into broad national science and technology policies and goals. Therefore, the activities of the Institute

will be focused on providing theoretical underpinnings for existing national programmes, such as quantum optics, soft condensed matter and interfaces with biology, various quantum technologies, including communication and cryptography, as well as aspects of cosmology and astrophysics.

The Institute will be well-positioned to collaborate with existing experimental facilities, such as the Southern African Large Telescope, the nuclear facilities at iThemba Laboratory for Accelerator-Based Sciences (iThemba LABS), the CSIR National Laser Centre and, if South Africa wins the international bid to host it, the Square Kilometre Array radio telescope.

NITheP consists of a central "hub", located here at the Stellenbosch Institute for Advanced Study, and two "spokes", located at the Universities of KwaZulu-Natal and the Witwatersrand. In addition, the Institute has formal associates at both institutional and individual level. Postgraduate students may register at their home institutions while participating in NITheP's programmes and activities.

In order to provide long-term structural support, the Institute will fall under the National Research Foundation in the same way as other national research facilities, such as the South African Astronomical Observatory and our nuclear research facility, iThemba LABS. As with other national facilities, the Institute intends to be accessible to scientists across the country and beyond.

Furthermore, the Institute will undertake a variety of activities, including postgraduate and postdoctoral research and training, summer and winter schools, support for visiting scientists and cutting-edge research by senior South African scientists. The structure of the Institute will provide opportunities for young scientists to grow, and seasoned scientists to flourish. The interactions between South African and international scholars, and between young and old scientists, promise to generate a wealth of new knowledge and intellectual activity, and produce creative solutions to pressing problems.

We believe the Institute is poised to achieve multiple goals, all equally important, including:

- building capacity among talented young people from South Africa and the rest of the African continent, thus preparing a future African generation of intellectual leaders
- supporting cutting-edge research
- facilitating collaboration and communication among existing centres of expertise in South Africa, the African continent and internationally
- contributing solutions to technological, environmental, social and health problems that affect South Africa and the world, and
- providing a platform for the exchange and stimulation of new ideas and creative insights.

So far, the Institute has already accepted 48 postgraduate students, 16 of whom are black and eight female, with R1.8 million having been committed in bursaries. In 2007, posts were advertised internationally, and a director, five researchers and eight postdoctoral fellows have now been appointed. The interim director, Professor Hendrik Geyer, and his colleagues have much to be proud of.

In closing, allow me to convey my heartfelt congratulations to the National Institute for Theoretical Physics on its official entry onto the world stage. I am confident it will not be long before it joins the ranks of world-renowned facilities such as the International Centre for Theoretical Physics in Italy and the Kavli Institute for Theoretical Physics in the USA as a highly respected centre of excellence.

The interactions between South African and international scholars, and between young and old scientists, promise to generate a wealth of new knowledge

Kenya enters the liminal period

By **Steve Ouma**

The author is in the Faculty of Arts, University of the Western Cape. This article was published in *Pambazuka News*, issue 365, 25 April 2008. It has been edited.

The jubilation that followed the announcement of Kenya's Grand Coalition cabinet on 13 April 2008 was expected. On the lips of most Orange Democratic Movement (ODM) supporters, the talk was "at least now we shall also share in the national cake" and perhaps not be just passengers of the government but real actors. Evoking the argument of legal theorist Bruce Ackerman, some analysts have argued that Kenya has been in a "constitutional moment" since the outbreak of violent protests following the 2007 election.

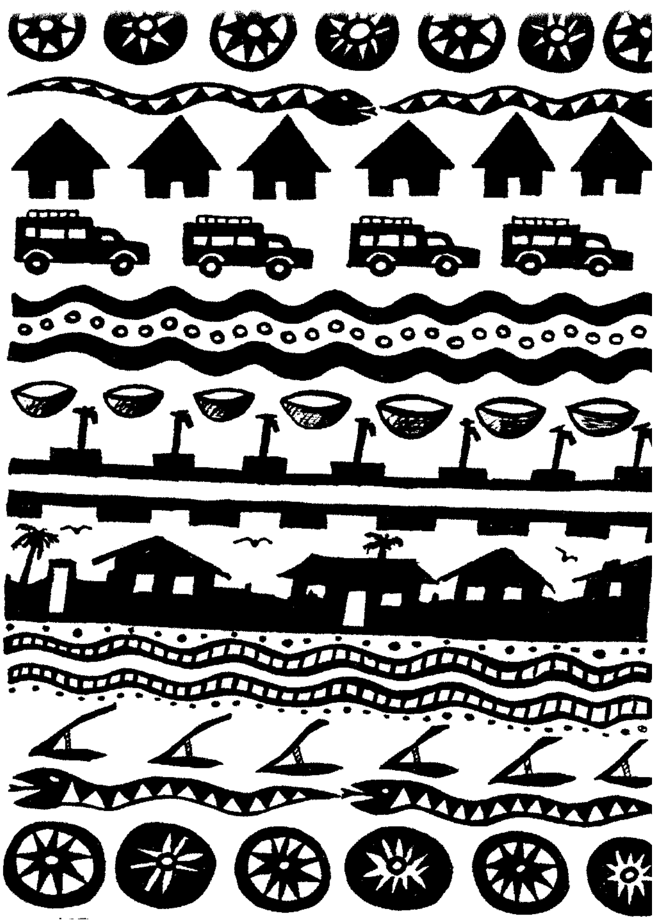
CONSTITUTIONAL MOMENTS

Bruce argues that constitutional democracy in the United States has evolved along two distinct tracks of lawmaking. One track is that of "normal politics", where the executive, legislative and judicial branches of government make decisions on behalf of citizens in the absence of significant citizen engagement. The second track is what he refers to as "constitutional moments". These are times characterised by sustained citizen engagement, mobilisation and demands for social transformation. This track is therefore one of "higher" lawmaking.

During these constitutional moments, the people themselves assert their supremacy, and demand sweeping changes in the structure of constitutional democracy. When American democracy has functioned on this second, higher track of lawmaking – as when the constitution itself was framed, when the country emerged from its civil war and brought an end to slavery, and when the federal government dramatically expanded its intervention in the national economy during the New Deal of the 1930s – governing institutions were fundamentally reshaped.

By all measure, Prime Minister Raila Odinga and President Mwai Kibaki's handshake and the subsequent deal have not generated such heights of legal and constitutional change. In recent history, though, Kenya experienced constitutional moments during the 2002 elections and at the National Constitutional Conference held at Bomas.

Before the conference, the Constitution of Kenya Review Commission, chaired by Professor Yash Pal Ghai, had gone around the country listening to the people. After many years of misrule and oppression, Kenyans used the Ghai hearings as moments to review their past and define the future. They demanded a presidency that did not imitate a god; one that was not above



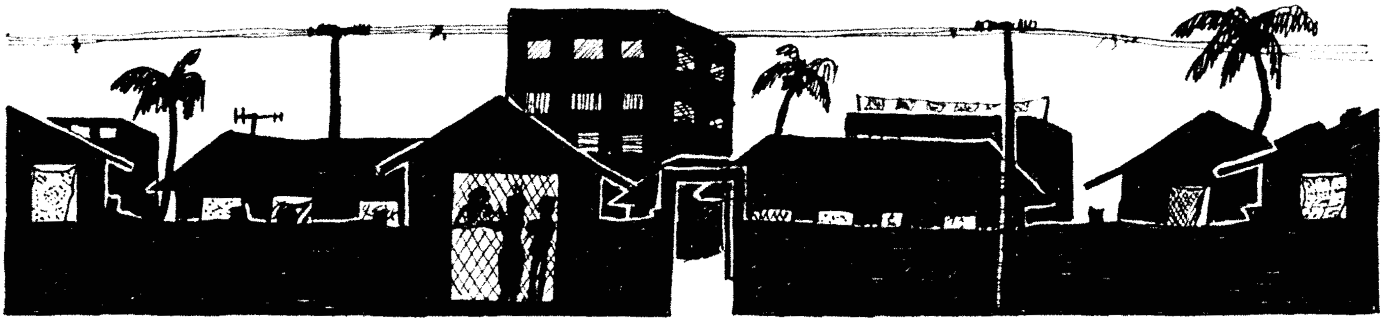
The country is between the new and the old legal order, between authoritarian presidency and another centre of power, between a presidential and a parliamentary democracy, between an open and a closed society.

the law or divinely omniscient. Kenyan presidents have been like Greek gods: pompous in benevolence and lethal in malevolence. On the super-centralised government framework, Kenyans lamented that they work so hard, deep in their villages, and generously "give unto Caesar" through exorbitant taxes, but have no say on how Caesar shares out the national cake. For this reason they demanded to be allowed to participate more prominently in the way they are governed, and the way their resources should be shared. One cannot sidestep these moments simply because there was no violence associated with them. These were constitutional moments.

After the 2002 National Rainbow Coalition (NARC) velvet revolution, the clarion call *yote yawezekana bila Moi* (all is possible without [former president Daniel arap] Moi) was all over the air, and there was increased vigilance by the citizens. Asserting their supremacy, citizens arrested police caught extorting bribes. Workers in the export processing zones took to the streets in March 2003 to claim better wages, collective bargaining agreements and just relations in production. And most importantly, there was pressure on the NARC administration to fast track constitutional reforms – which, in their pre-elections pledge, they had promised to do in 100 days. When the Bomas conference re-opened, the debate was robust and unstoppable. Kenyans wanted wide-sweeping changes in the structure of our constitutional democracy.

The struggle was so intense that it finally polarised the country at the referendum. While the "no" and "yes" sides differed and put forward passionate arguments on other issues, amid the propaganda and mudslinging that are common in vote-wooing campaigns, the real watershed issue was the executive and devolution of power. Evidently, most Kenyans wanted, and still want, a less powerful executive.

These were constitutional moments that simply lacked a midwife. It is the frustration and abortion of these moments that created the recipe for the post-election violence, pushing the country to its deathbed.



Kenyan presidents have been like Greek gods: pompous in benevolence and lethal in malevolence.

Kenyans know what they want, and they defined it rather well during these 2002 and 2003 constitutional moments that have been frustrated by the political class and other parochial interests.

LIMINALITY

What Kenya is going through now can best be described as a moment of liminality. Anthropologist Victor Turner introduced this concept in his 1967 essay, "Betwixt and between: The liminal period in the *rites de passage*". Turner regarded rites of passage, and particularly initiation rituals, as a process of transformation in which a person moves from one defined state to another through an intervening period of uncertainty and crisis. It is this state of crisis – the liminal stage – that is the focus of the ritual. It seeks to control it and to impose the values of the society upon the wavering individual who, for a short but critical period, is in a "gap" between social status positions. In this gap, neither the old nor the new rules apply, and the individual is compelled by the society to reflect on his or her situation, his or her place in the society and indeed the existence of the society as such.

Returning to the 18 March parliamentary debate, the state of Kenya's liminality was perhaps best captured by the minister for justice and constitutional affairs, Martha Karua, who reminded members that the constitutional amendment that the Bill sought to make "is temporary, pending the full review of the Constitution." The country is between the new and the old legal order, between authoritarian presidency and another centre of power, between a presidential and a parliamentary democracy, between an open and a closed society. One must also recall that the National Dialogue and Reconciliation process is still in session. It has been assisting Kenya to reflect on its situation, its place as a member of the regional and international community and indeed its own national identity. Its chief mediator, Oluyemi Adeniji, was in the parliamentary gallery for the debate.

The liminal period is also the stage of truth-telling, in Turner's analysis of initiation. The individual is taken through the community secrets and invited to understand the truth about the community. Kenya intends to start two truth-telling processes. One shall be underway soon: the Independent Review Committee (IREC)'s mandate is to probe the presidential election fiasco that plunged the country into crisis. The other will be the Truth, Justice and Reconciliation Commission. The common objective of the two parallel teams is to define the elusive truth. This shall be the most trying moment as truth is ultimately a matter of socially and historically conditioned agreement. What the various parties see as "facts" may well depend on their vantage point of the world.

It is only when this consensus is attained that the country shall move on towards the social transformation that we have been yearning for, to create a new moral code and national character. This new Kenya must be reflected in the new constitution, whose timeline has now been given as twelve months. Liminality is a creative and critical state of being. It is how well all Kenyans stride through it that will determine our reintegration amongst ourselves and within the international community.

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It is the frustration and abortion of these moments that created the recipe for the post-election violence.

From development assistance to development solidarity:

Venezuela and ALBA

By **Alejandro Bendaña**

The author is the founder and director of the Centre for International Studies in Managua, Nicaragua. This was his presentation to the Halifax Initiative conference, *The changing face of global development finance,* Ottawa, Canada, 1-2 February 2008

If the goal is development – best defined as sovereign democratic social transformation – then we must not speak of making present-day "aid" modalities more effective, but of replacing aid and the system in which it unfolds. One begins by questioning the very nature of the larger international financial architecture, what it stands for and who primarily benefits from it. "Development aid", as practiced by the North, is part of a system that generates deepening inequality and dependence across and within countries. In this context, the question is to make aid less, not more, effective – to end aid altogether, because on the whole it does more harm that good.

President Hugo Chavez Frias from Venezuela at Union Building.

Think outflows, not inflows: South to North. For every dollar of aid that goes into developing countries, ten dollars comes out as capital flight. Yet this is an issue that is regularly sidelined in discussions on development. It is much more important to focus on how to stop the nine from going out than to keep the one coming in. It has been estimated that developing countries lose more than $500 billion every year in illegal outflows that are not reported to the authorities and on which no tax gets paid. In Latin America, the amount extracted over the past thirty years may have reached some $950 billion, according to figures provided by James Petras.

No amount of aid, foreign direct investment or even remittances is going to change the structural equation over the long run. If one is to speak of new inflows, then we should conceive them in terms of the real historical debt owed by the North to the South – not "aid" or charity or private philanthropy, but reparations, restitution, compensation, and payment of the ecological debt owed to the people and environments of the South. There is a need to escape from discourses and visions that are tightly linked to the perseverance of contemporary power structures, including the one upheld and practised by governmental "aid" agencies.

Of course, developing countries need to retain much more of their own domestic resources. But we must also recognise that this is not simply a question of the (often non-existent) will of domestic financial elites, but of internationally generated impediments upheld by so-called "free trade" agreements, investment protection regimes, IMF conditionalities and the like, which demand ever greater liberalisation of the flow of capital and goods. Aid and loans are minuscule when compared with the profits made at our expense through unfair trade, exploitation of our labour, appropriation of our resources, interests on loans, domination of our markets and the privileges and incentives granted to multinational corporations. Add *that* to the cost of reparations and restitution.

HOW TO BUILD AN ALTERNATIVE JUSTICE AND DEVELOPMENT ORDER

First, you must conceive it. If you believe there can be no alternative, then there will be no alternative. This is difficult because it entails a paradigm shift.

Second, reconceptualise and change the role of the market. Markets must take their subordinate space in the organisation of a political economy. Markets and big capital cannot dictate engagement. Markets have to be embedded in society and, therefore, in relations of solidarity, not competition. This is a political approach to economics. As Alberto Acosta, president of the Constituent Assembly of Ecuador, stated:

> "We want a country where the markets function, but understanding "markets" as socially constructed spaces whose function is to provide for the human needs of today and of tomorrow. We want to dispose of the false dilemma between the market and the state. We don't want a market that accumulates wealth for a few – but at the same time, we don't want an inefficient state that transfers public resources to elites."

You must be clear about your indicators. Is there no improvement in the life conditions and dignity of people living fifty miles outside of Maputo, Managua or Manila? Then it is no alternative. We can already report that thousands of Nicaraguans who live outside of Managua are benefiting from the new Venezuelan-led development support schemes in the form of clinics and eye operations.

The alternative is constructed in changes, by the interplay of ideas and politics. Ideas challenge the dominant paradigm and introduce the alternative, but the goal is for the alternative paradigm to become hegemonic.

Is there no improvement in the life conditions and dignity of people living fifty miles outside of Maputo, Managua or Manila? Then it is no alternative.

A NEW DAWN FOR THE AMERICAS

Today, this combination of ideas and political shifts is being witnessed in the Venezuelan-led international collaboration scheme known as ALBA (Bolivarian Alternative for the Americas).

In 2004, the government of Venezuela took a political decision to use its massive oil reserves and earnings to assist other countries in the world, with the clearly stated objective to lessen their dependence on the dominant international order of trade and finance. According to statistics from President Hugo Chavez's opposition – who feel that he is giving away the national wealth – 18 co-operation agreements signed by Venezuela last year alone total some $4 747 billion, chiefly in oil and refineries, but also infrastructure, health, agriculture, housing, debt cancellation, aluminium plants and others. These agreements are mostly in Latin America, but also in Iran, the UK, China and even Burkina Faso. ALBA's premise is that a new form of regional integration and, indeed, greater political unity is necessary for independent development to take place.

ALBA was born as an alternative to the US government's Free Trade Agreement of the Americas (FTAA). It supports integration to reinforce sovereignty and just social relations instead of liberalisation and denationalisation. Venezuela and Cuba signed the first series of bilateral agreements. In 2007, Nicaragua and Bolivia joined ALBA. "A new political and strategic project for a new world," said Chavez, including co-operation in the fields of health, industry, food production and energy security, with more of a social criterion and than a mercantile one. Its founding charter calls for the establishment of a council of ministers and also a council of social movements to help inform decision-making.

In early 2008, the ALBA heads of state, now including the small island nation of Dominica, announced the creation of the ALBA Bank with capital of $1 billion. Its stated aim is to boost industrial and agricultural production among its members, support social projects as well as multilateral co-operation agreements among its members, particularly in the energy field. The objective is to counter the negative effect that neo-liberal globalisation, including in finance and trade, was having on its members. It constitutes yet another piece in the construction of an alternative international economic order, but unlike the Bank of the South – its predecessor, composed of South American nations – the ALBA Bank is less influenced the by the interests of the conservative Brazilian mega-capitalists who wield strong influence in the Bank of the South. One must, however, await the publication of the constituent documents and the actual project financing procedures before rendering a final verdict.

Of greater importance to the Caribbean and Central American nations was the formation of Petrocaribe in 2007. Fourteen countries, chiefly of the Caribbean, plus Nicaragua and Honduras, have joined the scheme whereby Venezuela, through its state-owned oil company Petroleos de Venezuela SA (PDVSA), agrees to guarantee 100 percent of member country energy requirements, principally oil and derivatives, at market prices (as a member of OPEC, Venezuela cannot do otherwise), with 40 to 50 percent payable within 90 days (terms vary slightly in the different bilateral accords) and the remainder at an average of 25 years, with 2 percent interest and two to three years' grace. Proceeds of the latter, presumably accumulated by the respective state energy companies or a designated governmental agency, are to form part of a development fund for social and infrastructure spending. As in the case of the ALBA Bank, procedures are being worked out in practice by way of bilateral negotiations.

CONCERNS AROUND ALBA

Obviously, given the sheer novelty of ALBA, its bank and Petrocaribe, along with the dozens of bilateral co-operation agreements in various fields, it is difficult to comprehensively assess the process. Nonetheless, as with the Bank of the South, Latin America's social movements and regional networks are monitoring closely. Within a framework of general support for the initiative and its anti-imperialist dynamic, some concerns can – and have been – expressed. These relate to:

- a predilection for mega-projects, particularly the construction of refineries, pipe lines and transport infrastructure, that is of concern to environmental groups
- insufficient attention to the need to contest the dominant oil-centred energy matrix, possibly perpetuating dependence on the consumption of oil
- the fact that PDVSA is the Venezuelan counterpart institution and apparently in charge of key facets of the co-operation accord, including financial and technical oversight
- the difficulty encountered by civil society organisations – at least in Nicaragua – in obtaining information about specific bilateral agreements, and corresponding transparency concerns
- the stated decision of at least one government (Nicaragua) to privatise the co-operation process – making it a private commercial debt and therefore not subject to legislative budget scrutiny and reporting – prompting suspicions that partisan use of the funds will escape accountability
- a lack of appreciation for the autonomy and working dynamics of social movements and their regional networks who, as a matter of principle, reject both the notion of being "convened" by any government and of allowing governments to select which movements should form part of the Social Movements Council
- the lack of credibility of the Ortega government in Nicaragua, which continues to pursue neo-liberal and confessional policies and is opposed by the Nicaraguan and Latin American social movements, particularly its women's contingents.

OECD'S AID EFFECTIVENESS DEBATE (ACCRA)

From a social movement standpoint, including Jubilee South, the "aid effectiveness" debate is a non-starter. It is a contradiction in terms – unless it measures the benefits to finance capital, or aid's "effectiveness" an instrument for domination and a lubricant for corporate capital penetration. Nor can there be talk of the "effectiveness" of aid as an increasingly open instrument of security and foreign policy goals, including the "war on terror" or the acceptance of trade and financial liberalisation (such as the current EU economic partnership schemes).

In preparation for Accra, entering into the aid debate can only be justified if the objective is to utilise that debate to explain and denounce the institutional and historical foundations of the international aid regime. The emphasis should be on stopping the northern flow of capital and wealth from the countries of the South.

The way forward for development cannot be separated from, and indeed forms part of, the construction of emancipatory democracy.

UN'S FINANCING FOR DEVELOPMENT (DOHA)

Finance for development is a more straightforward proposition. The objective should be to better identify and challenge the international impediments – including "aid" – that stand in the way of domestic accumulation and its domestic mobilisation, such as the behaviour of domestic capitalists who ship national wealth abroad, and the expulsion by impoverishment of citizens that is linked to the enrichment of global elites. Finance for development should take the form of reparations and restitution due from the North to the South – the only real, legitimate debt – on account of centuries of looting and exploitation, including the wrecking of the environment.

Under no circumstance should we be under the illusion that "aid" and "loans" by "donors" are intended to "help" the people of the South. The discourse needs to be rejected. To actually believe it is either "tragic ignorance or unforgivable arrogance", in the words of Lidy Nacpil, Jubilee South's international co-ordinator.

WHICH WAY FORWARD?

The shift in power is underway, but it is not complete by any means. The first point to stress is that the way forward for development cannot be separated from, and indeed forms part of, the construction of emancipatory democracy.

The second is to build a critical consciousness, north and south, of the centuries-old extraction of wealth from the South to the North, from poor to rich, within and among countries – and to do so not as a policy or technical issue but a moral and political one. Poverty cannot be addressed simply as a contemporary reality but must be seen within a historical process of enrichment.

Third is to restate the importance of solidarity and the international mobilisation of that consciousness: to put the heat on the street. Without resistance, there can be no alternative – resistance is "alternatives in the

Poverty cannot be addressed simply as a contemporary reality but must be seen within a historical process of enrichment.

making". To support the right of a people and region to exercise economic self-determination as part and parcel of real democracy, in the face of what will be the unremitting hostility of the US government and its allies. Cuba continues to build its alternative, Venezuela its own, and Bolivia, too – and all are the objects of US-led destabilisation campaigns.

Fourth, to engage critically. While we support the greater emphasis on the state now being emphasised in ALBA and the Bank of the South, we do not wish to substitute the rule of a group of northern capitalists with a group of southern ones. Banks are problematic, as Jubilee South America has made public. Hopefully, at least some of those concerns will be addressed in the new ALBA Bank configuration. But one should always keep in mind what Bertolt Brecht once said. "What is the robbing of a bank compared to the founding of a bank?"

Fifth, not to lose sight of the goal to shift power – and that it is not as much a product to be attained in the future as a process that requires practice in the present. It is not enough to move from Bretton Woods and corporate capital's domination to state-led domination, which must be coupled with a greater democratic shift. To transform the international reality, we have to transform our national ones. We welcome Venezuela's decisive leadership in breaking some rules of the game – this historically unprecedented mobilising of one country's resources for the benefit of the others, this shift from sovereign debt to solidarity debt. This is not an end but the beginning, whether the governments like it or not. Aid, banks and debt are instruments of social and political control.

The shift of power is a shift away from capitalist mentalities and paradigms, so that:

- people are considered not as consumers but as citizens
- countries are seen not as markets but as nations, and
- capital and governments serve people and not the other way around.

Forging a new development model and development solidarity architecture is fundamentally a political and a social task. It is one expression of the larger struggle for human rights and sovereignty, and that struggle must increasingly be led more by women and youth and less by white men. By social movements, by uncivil society. In our continent, by the indigenous and the environmental and debt movements who demand – not aid effectiveness – but historical justice in the form of the payment of the social and ecological debt that has accumulated over the past five centuries.

Support for an alternative development path means support for the right and the ability of the poor to build their own independent movements and to bring sustained political pressure from below. Advancing toward "non-reformist reform" coalitions that can push state power to implement real development policies that are justice-based. Support for and participation in movements that will struggle for solidarity economics, for national democratic governance and for the changes in financial and economic policies, structures and systems that will allow alternatives to be constructed.

We need to bring more movements into the picture. This struggle is certainly not technical but political and, therefore, alliances must be constructed. At this conference, we could have benefited from the presence of leaders of the aboriginal communities in Canada who, no doubt, would have key things to say about development assistance. And of your environmentalists, with their fight against the tar sands exploitation that is making the world poorer. Of your peace and justice advocates who contest the notion that Canadian troops are bringing development and peace to Afghanistan. Without the involvement of movements and their perspectives on alternatives, the Accra and Doha debates will simply mean two more boring male-dominated meetings.

In 1933, John Maynard Keynes wrote: "[Capitalism] is not a success. It is not intelligent, it is not beautiful, it is not just, it is not virtuous – and it doesn't deliver the goods. In short, we dislike it, and we are beginning to despise it. But when we wonder what to put in its place, we are extremely perplexed."

Well, in much of Latin America, people are no longer perplexed and are beginning to put something in its place, as did the Cubans some fifty years ago. Socialism – or better, *socialisms*, in the plural – is back on the drawing board for the 21st century: not following any model or purporting to invent any one model, but as principles to guide human interaction in all its diversity and in its relation to nature.

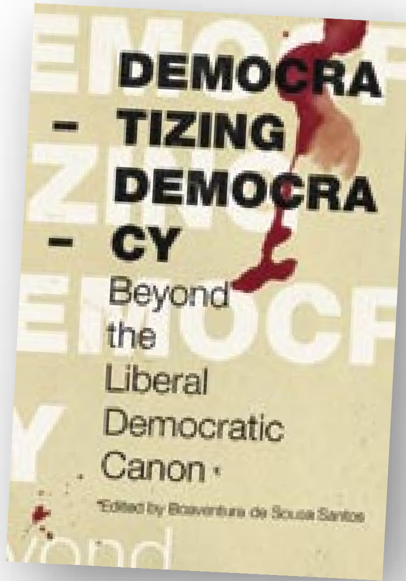
Progress is being made. Although we don't know where we will be at the end of the day, in Latin America we are convinced that there is a new political dawn of certainty and decision that must be supported and extended.

If you believe there can be no alternative, then there will be no alternative.

Reviews Editor: **Helen Douglas**

Democratizing Democracy:

Beyond the Liberal Democratic Canon



Boaventura de Sousa Santos (Ed)
Verso: London and New York, 2007. 477 pp

Reviewed by
Jeremy Cronin, MP

The collapse of the USSR and eastern European "socialist" systems nearly twenty years ago gave impetus to what some US academics triumphantly referred to as the "third wave of democratisation". The "first wave", in their view, had been marked by the advent of post-1945 liberal democracies in the defeated of World War II: West Germany, Italy and Japan. The "second wave" saw the establishment of liberal democracies in southern European societies that had been afflicted by decades of fascism (Spain and Portugal) or years of military rule (Greece). And then the "third wave" included eastern Europe and key Latin American countries emerging from military authoritarianism (Chile, Brazil, Argentina, Uruguay). South Africa's post-apartheid democratic breakthrough was classified with this "third wave" and hailed as among the most significant examples.

In this perspective of successive waves of democratisation sweeping the world, a particular version of democracy has been central: multi-party elections, in which popular agency is channelled into an electoral calendar. Implicit, but also sometimes explicit, is the assumption that "democracy" is about managing (rather than empowering) citizens. In this liberal view of democracy, popular forces (the "masses") are seen as predisposed to dangerous demagogic mobilisation. The electorate "is incapable of action other than a stampede", in the words of the post-war doyen of US liberal-democratic political theory, Joseph Schumpeter. "Modern societies" must insulate the market and the state –supposedly composed of a "neutral" and professional technocratic elite and periodically elected "representatives" – from these stampede-inclined masses. Locally, Frederik van Zyl Slabbert, espousing the "third wave" version of democracy at the beginning of the 1990s, warned against "overburdening" our new democracy with the social and economic issues that had caused the conflicts of the past. Democracy had to be low intensity, sterilised.

In their introduction to this collection, de Sousa Santos and Leonardo Avritzer note that the liberal democratic canon has lost its momentum, not just in the so-called developing world, but in its developed heartlands, where there is growing electoral apathy and a deepening sense of alienation from elected representatives. The articles focus on trade union and community-based participatory democratic practices in semi-peripheral and relatively industrialised societies of the South (Brazil, India, South Africa and Colombia). The underlying thesis is that the project of "democratising democracy" has much to learn from participatory traditions within these societies.

The opening and concluding theoretical chapters argue that the practices elaborated here challenge not just the liberal "low-intensity democracy" canon, but also the Leninist notion of "dual power", in which popular struggle is designed to create an alternative, embryonic state that will eventually displace and smash "bourgeois" representative democracy.

Several studies from Colombia trace the attempts of rural communities to build participatory democracy and co-operative production while caught in the crossfire of a 40-year civil war involving left-wing guerrillas, right-wing para-militaries, and US-backed state forces. Perhaps the most interesting chapters are those devoted to participatory budgeting in Brazilian cities, notably Porto Alegre and Belo Horizonte, and decentralised popular participatory planning in the Indian state of Kerala.

The Colombian "communities of peace", like the Porto Alegre participatory budgeting process or the village- and municipal-level popular planning in Kerala, are not designed to smash parliamentary democracy. In fact, in the Brazilian and Indian cases, the processes have been developed and actively led by parties with strong popular social movement roots that also actively participate in (and win) elections: the Brazilian PT (Workers Party) and the Indian Communist Party (Marxist) (CPM).

In these cases, participatory democracy is designed to strengthen, monitor and enhance representative democracy by bringing popular activism to bear. In Brazil and Kerala, these participatory processes actively transform the state bureaucracy, compelling state functionaries to engage with local community gatherings to explain technical options and demystify budgetary choices. An estimated 30 percent of implemented infrastructure programmes in Porto Alegre are selected and prioritised by non-professional community gatherings that elect their own regional delegates who then participate in negotiations with their counterparts from other areas of the city. These processes are facilitated by municipal professionals, but the autonomous powers of community representatives are jealously guarded.

Given our own challenges of corruption and clientelism in the interface between state structures and the private sector, it is interesting to note that the Brazilian and Indian empirical studies suggest that popular participatory democracy is a major weapon against these negative tendencies.

Until reading this volume, I had not appreciated that the PT in Porto Alegre, while consistently winning mayoral elections for more than a decade, has never enjoyed an electoral majority in the municipal council. It is PT mayors, drawing on their social movement roots, who have popularised participatory budgeting. They have used popular forces to unlock a redistributionist and transformational agenda in Porto Alegre, outflanking the blocking agenda of the conservative parties that dominate the city council. In Kerala, the CPM and the broader Left Front, of which it is the key component, have won and lost state elections several times. Apart from the left's imbued traditions of popular campaigning, an additional motivation for unleashing decentralised popular planning in this case is to build momentum for sustained transformation in a situation where being part of the governing alliance is not guaranteed.

There are two South African contributions (by Sakhela Buhlungu and Shamim Meer), which basically deal with the relative (but not absolute) decline of participatory democratic traditions in post-apartheid South Africa. They note the strong traditions of localised organising and participatory democracy that developed in struggle here in the course of the 1980s. Our post-1994 local government legislation, in part inspired by Porto Alegre, now provides for ward committees and for popular participation in municipal planning and budgeting. So why has none of this taken off effectively?

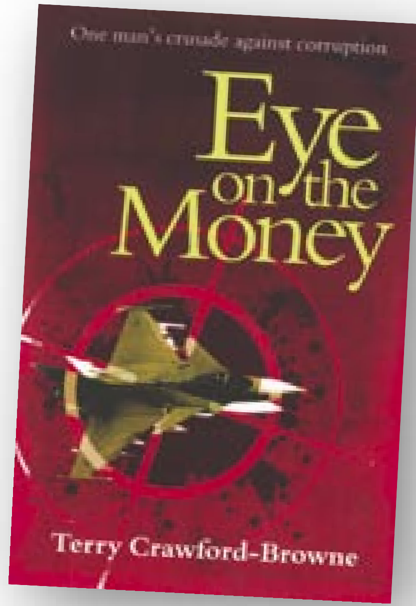
There are probably several reasons. For both the ANC and its mass support base, electoral democracy remains a novelty, and is therefore perhaps overrated. Also, unlike the PT and CPM, a key leading cadreship in the ANC, particularly under the Mbeki presidency, was neither schooled in popular mass struggles nor particularly sympathetic to them. Post-Polokwane, there is now the intention to return the ANC to its mass mobilisation roots. Whether this will succeed remains to be seen. Perhaps an additional reason for the relative neglect of popular participatory democracy in South Africa has been the ANC's overwhelming national electoral dominance.

The challenges of corruption and clientelism that seem to be increasingly dominant within South Africa's new political system; the disaffection of many communities, evidenced in hundreds of township protests; and the low esteem in which our new parliament appears to be held are all reasons – not to abolish our hard-won parliamentary system – but to ensure that we find ways to deepen and enrich our democracy. These challenges make this volume particularly interesting.

[Note: *Democratizing Democracy* is the first volume of Verso's series, "Reinventing Social Emancipation: Towards New Manifestos". The second, *Another Production is Possible: Beyond the Capitalist Canon*, was reviewed in *New Agenda*, Issue 28. *Another Knowledge Is Possible: Beyond Northern Epistemologies* is the third volume.]

Eye On The Money:

One man's crusade against corruption



Terry Crawford-Browne
Umuzi: Cape Town, 2007. 238 pp

Reviewed by
Debbie Budlender
(Community Agency for Social Enquiry)

One of a recent slew of autobiographies that tell of personal involvement in the struggle against apartheid and in developments since 1994, *Eye on the Money* goes beyond the South African story in its insight into the international arms industry and arms deals.

Terry Crawford-Browne, a former international banker, is an unlikely revolutionary. The book tells of how he used his technical knowledge to understand both the finances of the previous regime and the post-1994 government, and the deals that were entered into in both periods. His story spans the sanctions campaign imposed against South Africa in the 1980s – a strategy which Crawford-Browne is not alone in seeing as central to the eventual demise of apartheid. At a personal level, his contributions resulted in a bout of severe depression during the 1980s, and bankruptcy, when a court ordered that he pay costs in a court challenge against Finance Minister Trevor Manuel.

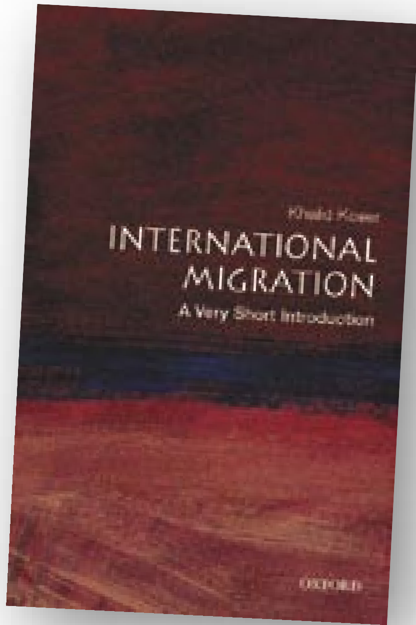
Crawford-Browne's stance is essentially an ethical one, and he firmly places himself as fighting corruption from "within the church". This does not, however, imply a soft and conciliatory stance. It goes without saying that the arms companies come in for criticism. But so, too, do the governments of such countries as Britain, Sweden and Germany, South Africa pre- and post-1994, and a range of individual actors. In the latter respect, Crawford-Browne is prepared to take on icons such as Nelson Mandela, whom he criticises for "active support of the armaments industry" while stating that South Africa would never again be a "fountainhead of conflict".

The book contains a wealth of information, with copious footnotes to back up assertions. One has the suspicion that not every detail is necessarily completely true. This is, however, understandable with a topic that is covert by nature, and with sources that may not be as reliable as one would like. That said, if even a third of the allegations in the book are true, this remains a shocking story. And it is highly likely that more than a third are, indeed, true. At times, it seems that Crawford-Browne sees a conspiracy behind every bush. He states openly his belief that "all governments act duplicitously". Nevertheless, as the old saying goes, just because you're paranoid doesn't mean that they aren't out to get you.

The scope and wealth of information here means that it is not always an easy read. However, the style is light and conversational and, for the most part, nondidactic. Like many other autobiographies, it might have benefited from a closer edit by an outsider. Some parts of the book – particularly the earlier history of the anti-apartheid struggle – may be difficult to follow for readers who do not have the assumed background knowledge. And, while the technical details may lose some readers, they will be invaluable to others who want to use them in advocacy and to understand the dirty politics and economics of arms deals, and corruption more generally.

International Migration:

A Very Short Introduction



Khalid Koser
Oxford University Press: Oxford, 2007. 104 pp

Reviewed by **Khayaat Fakier** (Sociology of Work Unit, University of the Witwatersrand)

Oxford University Press' series of "very short introductions" presents complex topics, ranging from anarchism to the World Trade Organisation, in an uncomplicated and accessible manner. With this brief, Koser, a lecturer in human geography at University College London, brings his academic expertise to the topic of international migration.

He is explicit from the start that his goal is to disprove negative perceptions about migrants in a world where citizens view non-citizens as economic threats for scarce jobs or as threats to personal security and safety. Instead, Koser argues convincingly that most economies depend on the mobility of workers.

In 2005, international migrants numbered 200 million people: the equivalent of the population of Brazil, or one in every 35 people in the world. The dimensions of international migration have increased rapidly in the past 25 years, doubling since 1980 and increasing by 25 million since the beginning of the 21st century. It has been estimated that migrant workers have formally remitted nearly US$200 billion, "representing the second largest transfer of a legal commodity worldwide, after oil". However, when informal remittances are taken into account – transfers of money in the form of goods and to sidestep the financial costs of remittances – it could reach nearly US$450 billion.

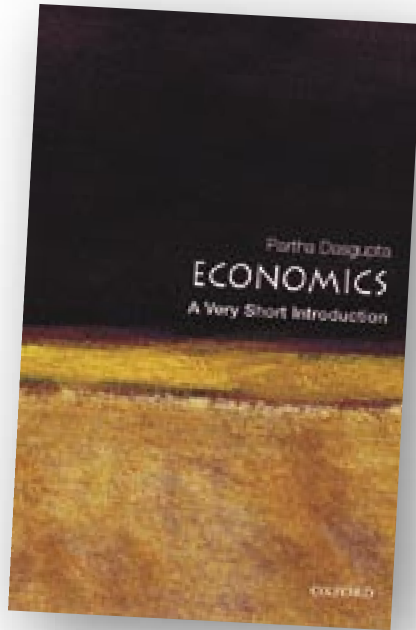
Acknowledging that data on migration is difficult to establish and open to manipulation, Koser delves beneath the statistics to highlight the complexity of international migration, including the interrelated characteristics of globalisation, discriminatory labour markets, development and migration, and the experiences of refugees, asylum seekers and other migrants. Drawing on case studies and interviews, he demonstrates how the local experiences of migration are implicated within complex and changing regulations on human mobility, transfers of money and the global economy.

In the conclusion to this excellent introduction, Koser points to the policy and social challenges of migration. Notably, the rate of women migrating worldwide has increased to almost half of all migrants, while female migration has overtaken male migration in countries in Europe, Latin America and the Caribbean, North America, Oceania and the former USSR. He argues that this is an area of study that should consider labour market and social discrimination and the abuse of women in their home and destination communities. He also directs our attention to the growing rate of internal migration. China is estimated to have 140 million migrants – which should escalate to 300 million in the next 20 years – contributing an estimated 16 percent or US$30 billion to its GDP. The implications of internal migration for onward international migration, the emancipation of women, and the impact on gender and generational relations in households signal a new research area.

My enthusiasm for this book is curtailed by a slight irritation that the interesting work on migration that Koser refers to is not adequately referenced. However, he succeeds in taking us beyond the negative media treatment of international migration and provides enough information to draw our own conclusions.

Economics:

A Very Short Introduction



Partha Dasgupta
Oxford University Press:
Oxford, 2007. 172 pp

Reviewed by
Peter T Jacobs
(Economics, UWC and HSRC)

Partha Dasgupta, a well-known development economist, conveys his message in a generally accessible writing style. In later sections of the book, however, this is compromised by the approach he brings to bear on some pivotal concepts.

Dasgupta draws on notions of "trust" and "institutions" to take readers on a whistle-stop excursion of a range of macro- and micro-economic development issues. Trust is the rational belief one person has in others. Institutions are defined across a continuum stretching from formal rules and laws through social units to structured agencies. Some institutions, like property rights and knowledge, are intangible and hard to pin down. But the more visible institutions – such as households, communities, markets and governments – are complex entities that are also extremely difficult to measure.

But these are essentially micro-economic devices. While the book starts off with a macro-economic snapshot of human well-being on a global scale, it quickly sinks into typical micro-economic tale-spinning. Its reasoning is firmly cast in the paradigm of rational individual choice, abstract econometrics and mathematical modelling (including elementary game theory). This adherence to the essence of neo-classical economics gives the book a sharply technical and fictitious edge that may make parts of the book inaccessible to some targeted readers.

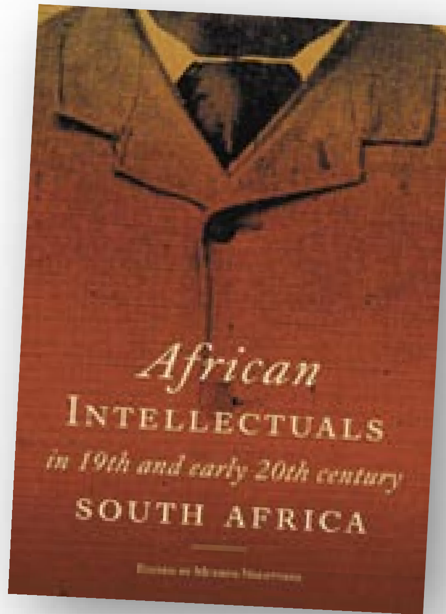
Older topics – such as scarcity and opportunity costs, supply and demand – feature less prominently in the text and receive some critical assessment. The notion of Pareto efficiency, for instance, which is the benchmark for resource allocation in welfare analysis, is critiqued here because it often runs counter to equity.

The book offers a fascinating tour of perhaps the most topical issues of the 21st century, namely sustainable development and science and technology. Growth is often pursued for its own sake while the environment is woefully neglected. Gross domestic product data, for instance, do not take into account environmental impacts – basically because the market value (price) for nature does not exist. Similarly, advocates of globalisation have encouraged developing countries to cash in on their natural resource abundance. Trade in this context may, however, accelerate the rate of natural resource depletion and increase the ecological risks of underdeveloped and fragile economies.

In today's information age, advances in science and technology play a vital role in economic progress. Economic growth propelled by science and technology in turn requires investment to enlarge the stock of knowledge capital. A package of public investment and incentives is usually put together to kick-start the accumulation of scientific knowledge and attract private sector investment into this domain. But to enhance and sustain the growth of knowledge capital, the author suggests, scientific knowledge has to be privatised or commodified.

By and large, this is a non-technical guide to some hardcore economic issues of recent times. What enriches the narrative is the occasional reference to other fields of knowledge, such as history, psychology, anthropology and politics. This interdisciplinary approach also helps to discard the "dismal" image of economics and display it as an exuberant science. In places, Dasgupta guides readers through some of the path-breaking literature on a specific idea, but the history of economic thought is generally neglected. The essential message of this book is quite straightforward: if an economic agent or country wants to prosper, it has to place its trust in market institutions. And yet, it concludes with the perplexing statement that perfect markets do not exist.

African Intellectuals in 19th and early 20th century South Africa



Mcebisi Ndletyana (Ed)
HSRC Press: Cape Town,
2008. 76 pp

Reviewed by
Simphiwe Sesanti
(Journalism,
Stellenbosch University)

Upon reading this book's title, one had the impression that this work would be a chronicle of intellectual traditions representative of all South Africa. But, no, it is not! It is about the intellectual traditions of the sons of the Eastern Cape.

In his foreword, UNISA vice-chancellor Barney Pityana, a son of the Eastern Cape soil himself, seems to have been struck by this focus and in justification observes that this study is not "an exercise showing a bias towards the Eastern Cape in the understanding of this country's intellectual tradition". It is about some men (regrettably women are absent) whose engagements with white settler colonialism made indelible marks worthy of historical record.

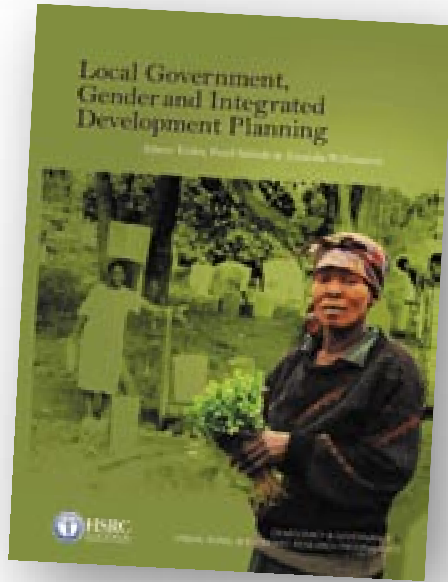
The story of Ntsikana, the Prophet, reveals the situation of Africans when they met early European Christian missionaries. Though they were not hostile to the message of the new religion, they resisted a complete erasure of their cultural identities. Ntsikana, for instance, "conceptualised and constructed his religion in a way that would attract and accommodate the various cultural dimensions of his own people". As a result of that synthesis, he was "able to advance Christian beliefs within the African community".

Like Ntsikana before him, Tiyo Soga, "the first internationally educated black South African and priest... turned his educational training towards awakening the very same national pride and consciousness that his missionary teachers had denounced". While he was proud of his academic achievements, Soga rejected the missionaries' patronising tendencies. He objected to the their regard of him as "an exception among natives", insisting that he knew of many Africans who would have surpassed him had they been given a chance. This principled position led to him being branded "overly-sensitive" by his missionary colleagues.

The story of John Tengo Jabavu reveals that the tensions that exist among contemporary black journalists and black politicians are nothing new. In the 1900s, Jabavu, not without reason, was accused of using his newspaper, *Imvo Zabantsundu*, to pander to white liberal politicians' agendas since his newspaper was financed by the latter. His contemporary, Sol Plaatjie, the founder of *Koranta ya Becuana*, lashed out that *Imvo Zabantsundu* "is native only in language". In our modern era, Jabavu would have been labeled a "coconut". When our great-grandchildren ask one day how it came that their ancestors became dispossessed, not only of their land, but of their culture as well, through this book they will know that journalists like Walter Rubusana and poets like SEK Mqhayi did not just roll over and die. They waged courageous resistance!

This book is a welcome contribution to the history of Africans' intellectual tradition in South Africa. While it is not simplistic in its approach, it offers an accessible and easy reading. Another addition to the Afrocentric tradition of research!

Local Government, Gender and Integrated Development Planning



Alison Todes, Pearl Sithole
and Amanda Williamson
HSRC Press: Cape Town,
2007. 41 pp

Reviewed by
Malcolm Wallis
(Commerce, Durban
University of Technology

This short monograph attempts to fill a significant gap in much current thinking and practice in relation to local integrated development plans (IDPs): the extent to which they pay attention to gender. It explores the issues through case studies of three diverse local authorities in KwaZulu-Natal: the major metropolitan authority of eThekwini, the remote rural municipality of Msinga, and Hibiscus Coast, which has roughly a 50:50 split between urban and rural populations.

A diversity of research methods was used, including interviews and focus groups with the local officials responsible for IDPs, women councillors, traditional leaders and their wives, and women's organisations. Interviews were also conducted with key players at national and provincial levels.

The monograph places the authors' concerns within the context of national policy, setting out some of the main principles and making reference to gender equality as enshrined in the constitution. It also sets out the main elements of the national "gender machinery". We are reminded that, according to the 1998 White Paper on Local Government, gender equity is intended to be a "guiding principle for developmental local government".

However, the authors conclude that such intentions were insufficiently applied in practice, as far as IDPs were concerned. This may have been due to a desire not to overload municipalities with already serious capacity constraints, like Msinga. It is also not true that decentralised planning will automatically benefit women; much depends on the capacity of the authority concerned and the local context, where social, economic and political factors come into play.

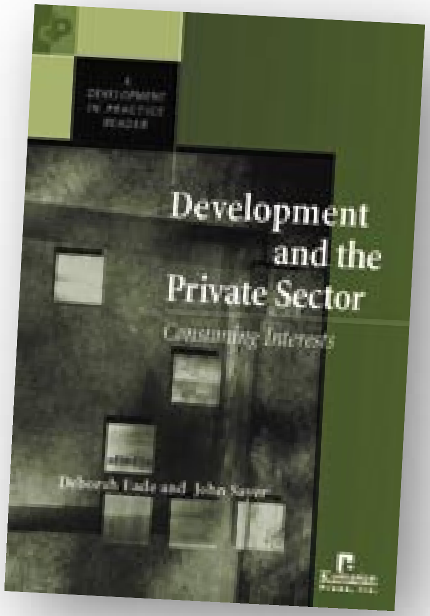
The municipal case studies bring out strongly the contrasts between the three authorities. However, gender is still marginal within municipalities and the voices of women are not really being heard. This was particularly true in Msinga, where the IDP had very little to say about gender, despite the serious issues facing women living there. Local environmental factors, such as a lack of water or the distance from major urban nodes, have made development difficult in general but they particularly affect poor women.

The monograph closes with some suggestions for the future, highlighting that the picture is not totally dismal. There are good practices that may provide ways to improve on current performance. It is disturbing, if not surprising, that the poorer localities seem less likely to progress because they have capacity problems that directly relate to local conditions.

Obviously, the study is limited in that it is based on just three places in one province. However, the picture painted by these authors may well be reflected on the national canvas. They are to be congratulated for producing a concise and stimulating volume that will be of value to those with interests in gender and planning, particularly in the local sphere of government.

Development and the Private Sector:

Consuming Interests



Deborah Eade and John Sayer (Eds)
Kumarian Press: Bloomfield CT, 2006. 313 pp

Reviewed by
Wolfgang H Thomas
(University of Stellenbosch Business School)

The debate around the "developmental state" is currently high on South Africa's agenda. Based on the perceived shortcomings of the capitalist-market system (or the neo-liberal "Washington consensus" approach), it is widely assumed that government therefore *has* to increase its socio-economic involvement.

In this collection of essays originally published in the journal *Development in Practice* and edited by two leading Oxfam academics, respected and experienced development practitioners of the NGO sector look upon *both* the private and public sectors as important and valuable partners in the development process. They have no illusions about the underlying (profit-maximising) goals of corporations active in developing economies – but neither do they have illusions about the shortcomings of public sector agents.

This results in a pragmatism that is much needed in the current heated debates about alternative strategies for development. A good example is contained in the title of John Sayer's introductory chapter, "Do more good, do less harm".

Similarly well balanced are the informative and useful conceptual chapters, which concern the evolution of corporate social responsibility; corporate accountability to the poor; the scale factor in business involvement in developing communities; and the management of ethical standards.

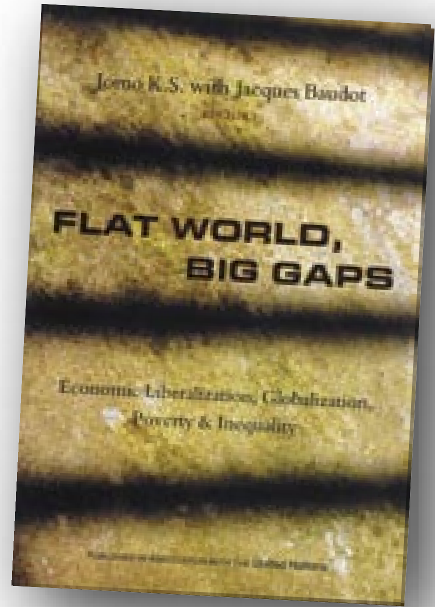
Seven case study or "focus area" chapters provide the necessary depth to the collection. We read about worldwide failures of privatisation efforts with respect to water and energy, with a vivid report of Argentina's debacles. We also look at the worldwide dilemma of an oversupply of coffee, at conflicts between free trade efforts and corporate social responsibility in Central America and at the widely neglected role of women in African horticulture. The underlying view is that corporate social, environmental and developmental responsibility is growing, but only slowly and with major challenges along the road. New "fair trade" and ethical codes of conduct can help, but should not be expected to work miracles.

In keeping with the low-key, pragmatic approach of the editorial team, the collection does not end with grand conclusions, appeals or expectations, but rather with a "resources" section – 30 pages of annotated bibliography and lists of websites and institutions. One can almost hear them suggesting, "Do not draw final conclusions; rather follow up the rich experiences that can be extracted from current writings."

I recommend this book and its approach to those in South Africa who so easily reduce the complexities and mixed results of development processes and programmes to simplistic, polarised point-scoring exercises in the alleged superiority of either "government" or "the private sector". Our goal should rather be to bring about an appropriate mix of the two that is suitable for particular environments, sectors and issues.

Flat World, Big Gaps:

Economic Liberalization, Globalization, Poverty & Inequality



Jomo KS with
Jacques Baudot (Eds)
Zed Books: London and Third World Network: Malaysia, 2007. 416 pp

Reviewed by
Isaac Nkuna
(Limpopo Legislature)

Flat World, Big Gaps represents a shift from the view dominant in neo-liberal economic circles that economic liberalisation and globalisation are good for economic growth, poverty alleviation and reducing inequality in society. The book argues that, instead, they have made the situation worse. To substantiate their arguments, the authors draw richly from various case studies from Eastern Europe, Latin America, the Middle East, East Asia and Africa. The plethora of case studies presented makes this book unique and exciting to read, offering readers an opportunity to search the evidence themselves to test the validity of the arguments posited. A useful list of tables and figures makes it easy to find information, such as rates of poverty per region or global Gini coefficients.

The book shows that globalisation aggravates inequality, which the authors attribute to international rather than intra-national disparities. The advent of globalisation has not brought any improvement in inequality and poverty rates; instead, conditions appear to have worsened. Countries' commitment to social spending has been negatively affected as a result of the slow economic growth associated with globalisation.

Without being trapped in theoretical deliberations, *Flat World, Big Gaps* presents a realistic picture, supported by hard facts, of the impact of economic liberalisation and globalisation. The book gives the reader a sanctuary from which he or she can critically reflect on the developments in the world today without being clouded by neo-liberal propaganda. The recent anti-globalisation movements throughout the world symbolise the rise of a giant wave of dissatisfaction among economically marginalised people.

Although globalisation may have created a "flat" world of integrated systems that make it easier for people to interact and conduct business, it is clear that it has created big gaps in terms of poverty and inequality. Economic liberalisation and globalisation have done nothing to close the gaps. Instead, they have "globalised inequality".

Available for review

The following books have recently been received

Interested reviewers should contact **Helen Douglas** at mwnewagenda@mweb.co.za

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