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South African Journal of Social and Economic Policy



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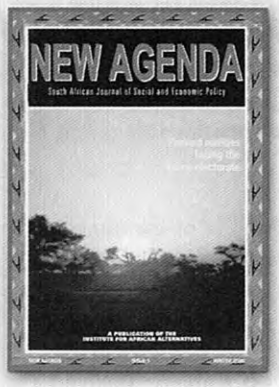
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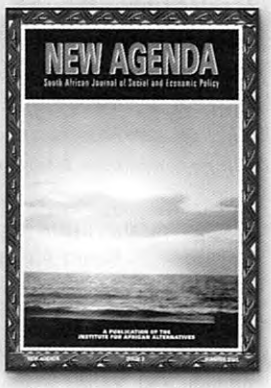
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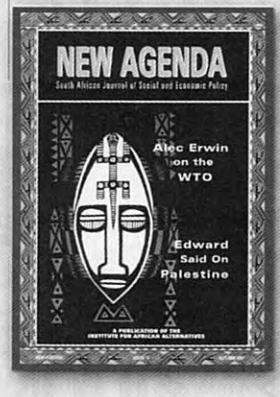
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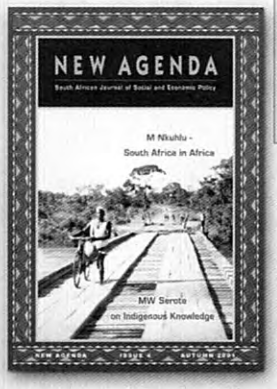


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CONTENTS

EDITORIAL	▼ Obituary - Professor Bade Onimode	7
	▼ Obituary - James Ekow Brew	8
	SOCIAL	
Guy Standing	▼ The South African Solidarity Grant	9
Wolfgang Maennig & Marc Maennig	▼ Crime And Combating Crime – An Economic Perspective	25
	ECONOMIC	
Interview with Rob Barrow	▼ Regulating Financial Services In S.A.	35
Ben Turok	▼ Budget Austerity And Social Cost	47
Mahomed Kamdar	▼ Reforming State-owned Enterprises In South Africa	50
Ben Turok	▼ Theses On The Political Economy In South Africa	67
	ARTS	
Temple Hauptfleisch	▼ "O, Go Play Somewhere - And Stop Bothering Us!":	68
	INTERNATIONAL	
Rob Davies	▼ Some Reflections On The WTO Ministerial In Doha	78
Fidel Castro	▼ The Current International Situation	83
Edward Said	▼ Emerging Alternatives In Palestine	97
UNCTAD conference	▼ Africa's Trade And Market Access	101
Susan George	▼ The Global Citizens Movement	108
Ben Turok	▼ The New Partnership For Africa's Development (Nepad)	122
Ben Turok	▼ The International Response To The NEPAD	125
	BRIEFINGS	
Jeremy Brecher, Tim Costello, and Brendan Smith	▼ Two, Three, Many Argentinas? - Porto Alegrecan Put A Debtor's Cartel On The Global Agenda	134
	▼ The Second World Social Forum	137
Phillip Cryan	▼ Defining Terrorism	142
Prof Njabulo Ndebele	▼ Top Twelve Books	146
	BOOK REVIEWS	
Kole Omotoso	▼ Socially Responsible Capitalism	149



An IFAA Board delegation to the Organisation of African Unity (OAU) Secretary General in Addis Ababa, November 1990.

The late Prof Bade Onimode is second from right. Other members of the delegation are (from left): Prof A Bathilly (Senegal), Mr S Nzombe (Zimbabwe), Prof B Turok (South Africa), Dr M Suleiman (Sudan) and, Prof H Othman (Tanzania).

EDITORIAL

OBITUARY Professor Bade Onimode

We mourn the passing away of Professor Bade Onimode, the foundation Chairperson of the Institute for African Alternatives (IFAA) who died of cancer recently. Onimode was a highly productive scholar and a dynamic personality. As Professor of Economics and Deputy Vice Chancellor of the University of Ibadan, Nigeria, he was renowned as an activist academic who never ceased to engage in debate and who stuck to his principles no matter the consequences. That took much courage in the repressive environment of Nigeria. As a result of his bold advocacy of progressive policies for the continent, articulated in numerous books, he became famous throughout Africa and beyond.

Onimode persuaded IFAA to pioneer a strong critique of the IMF and World Bank. He convened a conference of Africa's top economists in London in October 1987 which was attended by a Vice President of the World Bank, their Chief economist for Africa and the head of the IMF in Africa. The conference launched a stinging rebuttal of Structural Adjustment Programmes and the two books of papers, The IMF, the World Bank and the African Debt, edited by Onimode, became the standard work in the field. His other books cover a broad field of the political economy of Africa which also revealed his underlying love for mathematics.

Under Onimode's leadership IFAA flourished, establishing offices in the UK, Nigeria, Senegal, Tanzania, Zimbabwe and later South Africa. It produced some fifty books and papers in ten years and organised many conferences, seminars and lectures in London, Dakar, Dar es Salaam and Johannesburg to name but a few. IFAA took strong positions on Africa's debt, on SAP, on underdevelopment, always seeking to identify alternatives for Africa on the basis of a Pan African vision.

Bade Onimode was educated in Nigeria and the USA. On the way he became a Marxist but soon discarded some of the dogma, holding on to kernel of political economy which he interwove skillfully with the main theses of the theories of underdevelopment. In this he was a pioneer in bringing Marxism to the conditions of Africa and was a founder member of the Journal of African Marxists.

He was invited to lecture and contribute to conferences and seminars in South Africa and brought a wave of excitement by the deep scholarship and great lucidity as well as the bold radicalism he preached. For many, this was their first introduction to the richness of the African continent and its outstanding personalities.

Onimode was also an activist in Nigerian politics. He belonged to a small radical party but tired of its parochialism and sectarianism. He was sought after by all the governments of Nigeria for professional advice but despised the careerists and opportunists who were willing to sell their skills to corrupt governments and declined official positions. He was also closely associated with the United Nations Economic Commission for Africa, especially during the period of Adebayo Adededji and played a major role in developing its economic policies.

He leaves behind four talented children and many many friends and comrades who will never forget this imposing personality who brought so much light to our stumbling continent.

James Ekow Brew

We mourn the passing away of James Ekow Brew, former Managing Editor of New Agenda. He suffered a heart attack in London recently and is mourned by his wife and family in Cape Town and Ghana.

Brew was a professional journalist and was studying for a postgraduate degree at the University of Cape Town.

Born in Ghana, he lived for many years in South Africa and contributed much to our intellectual life.

We extend our condolences to his family.

THE SOUTH AFRICAN SOLIDARITY GRANT

By Guy Standing*

Introduction: News from the Transition

The year is 2011. South African has been through a rugged ten years. Crime and social tensions around the turn of the millennium had brought home to the leadership of the country - government leaders, business leaders, trade unionists and leaders of the churches, community associations and civil society groups - that, unless they did something bold and equitable, they would fail the great work of Nelson Mandela and his colleagues who had not only fought to defeat apartheid but had laid the basis for healing the wounds.

President Thabo Mbeki has just retired, having steered the country into social harmony and having just watched the Bafana Bafana win the World Cup (and a multi-racial cricket team narrowly lose to a multi-racial England). President Tito Mboweni left the Reserve Bank in good hands, with a governance structure in which all groups in society have a democratic voice. He has inherited a leadership role in which social and economic inequalities need some modification, but so much has been done that he can look forward with great confidence that South Africa will be a role model for the whole of Africa and for much of the rest of the world.

In 2011, the social crisis of the turn of the century seems a long way away. Back in 2003, several Acts had been passed, after fierce opposition from several national and international vested interests. A South African Health Service Act had unified the private and public sectors in partnership where primary prevention and healthcare - or a public health culture, based on egalitarian principles - was given very high priority, and by which a mix of public service and private payments had made access for everybody feasible. A four-tier pension scheme was operationalised, with everybody able to draw part of their income during the course of their lives after age 30. "Work insurance" top-up benefits were made available to all those who changed jobs or experience

*Director of InFocus Programme on Socio-Economic Security, ILO.

fluctuating incomes. The old Unemployment Insurance Fund was phased out after numerous fruitless efforts to tinker with it, as beyond salvation - rightly seen as a privilege for a minority and incapable of providing for those most in need. There are other public-private partnerships, in education, in social services, notably in the sphere of social care, and in personal development schemes.

Above all, the reformers of the time had realised that the *ad hoc* selective, apartheid-riddled schemes they had inherited were not amenable to piecemeal reform. Poverty, economic insecurity and inequality - racially and geographically based, but by no means restricted to those two dimensions - were so deep-seated that even successful economic policies would have left them to fester, endangering the whole long-term prosperity of the country. This is precisely what had happened in the late 1990s, and had become worse by 2000 than they had been in the great year of the "political miracle" seven years earlier. By the end of the last century, the estimated gini coefficient for personal income distribution was 0.58, which was one of the highest in the world and way out of line with all well-functioning economies. The business community, and mainstream economists, believed that macro-economic policy was sound, primarily because the wild business cycles of the apartheid era had been replaced by a more stable growth path. However, the value of the Rand had fallen steadily for over three years, and economic growth was sluggish. The fact was that, contrary to predictions made in 1995 when an orthodox economic strategy had been adopted, there had been what the Reserve Bank Governor described in February 2001 as "a prolonged period of subdued economic activity."

What really forced policymakers to take redistributive reform proposals seriously was what the Taylor Committee, among others referred to as the danger of a "four nation" society emerging, given that while overall inequality was increasing, this was mainly due to a great increase in the inequality *within the black community*, a finding brought out in the UNDP's Human Development Report for South Africa that came out as the Taylor Committee started its deliberations. The statistics showed that the poorest 50% of the population had experienced a **drop** in household income since 1991[1]. About half of all the people in the country were living below the modest poverty line. And largely because of the AIDS epidemic, there was a growing demand for social protection, both for the millions of sufferers and for the orphans and other relatives of AIDS victims.

The South African Health Review, published by the Health System Trust in March 2001, reported that in spite of "excellent" policies on health, poverty-

related diseases were on the rise, and cited a figure of 22% of households in which people were going hungry every day. It was pointed out that poverty and malnutrition exacerbated the impact of disease on the body's immune system. Whereas Statistics South Africa estimated that life expectancy in 1996 was 52 years for men, 61.6 years for women, the country's Medical Research Council forecast that overall it would drop to 40 in the early decades of the 21st century.

The situation demanded bold and decisive action to reduce poverty, economic insecurity and inequality. Some advocated measures such as land reform, but most authorities agreed that this would have little effect, largely for historical reasons. Similarly, there was little political "stomach" for wholesale asset redistribution, in spite of the desirability of that on both economic and social grounds. They also realised that, although some economists claimed that the country suffered from inflexible labour markets, in fact the labour markets were highly flexible, so that - except for the short-term gains from reaction to reforms in the international capital markets - there was little mileage to be gained by rolling back the Government's labour legislation of the mid-1990[2]s. Others proposed a substantial increase in *public works,* but this was soon regarded as fanciful and poor economics. Not only was the scale required to make a dent on unemployment and poverty so huge as to be unrealistic - given that about six million people were classified as living below the poverty line - but also, as economists pointed out, there was ample evidence that such schemes were generally inefficient - especially when launched on a massive scale - as well as prone to serious displacement and deadweight effects, as the ILO review had showed in reviewing the available evidence. Proposals for the introduction of *marginal employment subsidies*, mooted in the Budget of February 2001, were soon shown to be inappropriate too, recognised to have very high deadweight and substitution effects and been administratively unwieldy. They were seen to be neither a means of reducing unemployment nor a method of tackling the poverty in the townships and rural areas.

Accordingly, in these worrying but propitious circumstances, the Government took what seemed at the time to be a risk of introducing the **South African Solidarity Grant.** They toyed with other names, none of which quite caught the political mood as well as this[3]. Of course, there were important additional reforms, including the world-famous **South African Social Dividend Scheme**, in which workers and working communities have shared some of the benefits of successful business ventures as South African firms had become world-class dynamically efficient companies. I will leave that aside here.

Before recalling the debate around the introduction of the Solidarity Grant, it is worth recalling two other changes that took place in the middle years of the last decade. NEDLAC gradually lost its Gauteng centralism. Regional Solidarity and Development Councils emerged from Provincial Development Councils and the Social Development Forums. The latter had been too voluntaristic, and largely collapsed. There was some talk of a **Millennium Council**, but this was too vague to take off. There had also been lingering unease over the existence of the Development Chamber of NEDLAC. It was felt that there was not enough space for social protection issues, and that economic and social policy needed to be integrated, rather than be seen as occupying separate and even competing spheres. So the RSDCs emerged, in which a multi-partite governance structure made sure that policies were progressively made more democratic, more equitable, efficient, transparent and accountable.

These soon became primary organs of social protection policies, and eventually were responsible for major decisions over part of the new **Social Investment Funds,** spending to improve vital social services, which even today still vary in different parts of the country, largely because local groups seem to have different priorities - which is their constitutional right. The SIFs helped to boost national investment in the early 2000s, after a period of decline - gross domestic investment had fallen from about 25% of GDP in the mid-1980s to about 15% in 2000.

The other relevant breakthrough was the introduction of the South African Solidarity Card (SAS Card or Solidarity Card). This may seem obvious now. But back in 2000 it still seemed fanciful, even though old-age pensioners had "smart cards", with which there were problems because of lack of a protective environment. Solidarity Cards seemed fanciful and idealistic until old Charlie Meth, now enjoying his retirement walking the hills around Durban, stood up and in his customary mild language proposed that they should be introduced through a public-private partnership, which is essentially what happened, regulated by statute and operationalised under licence by several private firms.

As you know, Solidarity Cards are used by everybody now, and are used to give people their monthly solidarity grants and supplementary cash entitlements for those with special needs, such as physical or mental impairments (not disabilities, which people soon realised was a paternalistic notion). And they give cash points for educational and training development initiatives. The cards certainly make many transactions easier and make receipt of benefits less stigmatising and hard to obtain. We make use of technological breakthroughs for everybody these days.

The South African Solidarity Grant

The idea of the solidarity grant was fiercely resisted in 2001, which seems strange now because everybody takes it as a normal way of helping to strengthen our sense of community and society. We know it is no panacea; it is just a valuable part of the overall package of policies and services. It was proposed originally by members of the Taylor Committee of Enquiry into Comprehensive Social Protection, when the idea was quite modest - a small amount paid to every citizen and legal resident who had been in the country for more than one year legally. From the beginning it was paid to every individual as a right, not based on the household unit and it was paid regardless of marital status, family status, race, gender and perceived work status. You may recall that its introduction was advanced by several Constitutional Court cases, in which the Court ruled that the Government had an overriding obligation to ensure the right to basic security in order to be able to survive, function and develop as human beings[4].

Let me recall the main objections, in the course of telling you what the researchers have shown to be the main advantages. Initially, the Ministry of Finance and a few well-placed, and well-paid, economists objected on the ground of cost, as well as on grounds of *churning* and a *lack of targeting.*

(i) The cost argument

Cost claims amounted to the big political issue. Critics did a little arithmetic, and produced scary sums, which they leaked to the media with snide sarcastic comments as if they had a monopoly of common sense. Proponents had to campaign hard, and took several angles into the debate. First, they pointed out that under the UN Declaration of Human Rights and the International Covenant of Social, Economic and Cultural Rights, and other international treaties, the Government had a commitment to provide everybody with enough income on which to survive and develop. Not only that, but all political and social leaders publicly subscribed to that principle.

The critics said that the country could not afford it, and talked about the commitment to move "progressively" towards constitutional rights. But economists in and around the Taylor Committee pointed out that, besides the fact that over the previous few years the country had moved *away* from the direction required by the Constitution, paying for it was really about government and social priorities, not about the ability to pay. They pointed out that if you replaced government transfers that went predominantly to the middle-income and upper-income groups and merely returned the income distribution to what it had been at the

time of the political miracle, when almost everybody in any public position said it was too great for sustainable development, the money would be available to pay every South African citizen a modest income grant on which to survive.

Moreover, it was not even that hard. Just reversing the tax cuts to the richest 1% of the population made in 1999-2000 and the proposed tax cuts for this super-affluent elite in 2000-2001, would give almost enough to make it work. Savings could be generated by cutting subsidies to the affluent, including cutting the R2.6 billion given to private sector medical aid subsidies. Then some awkward advocates of the grant pointed out that each year the Government's social ministries and departments substantially underspent their budgetary allocations, which could be used to help pay for the solidarity grant. Then they noted that the National Development Funds had huge amounts locked up that could be used to give people basic income security. Besides unspent trust funds, some whiz-kid of the time (who has gone on to greater things, quite justifiably) pointed out that the Lottery Fund, introduced in March 2000 if I recall correctly, was generating an unspent surplus of over R10 million per month.

Other sources were quickly identified. The Taylor Committee proposed a special temporary measure, an earmarked Solidarity Levy, which was a wealth tax by another name. This was modest, but was regarded by most sensible affluent people as a worthwhile price to pay to help reduce poverty and the social threat that it brought with it. Put bluntly, they saw it as a form of investment in their future and, more significantly, in the future of their children and other relatives.

There was even moral pressure exerted on the private pension fund industry to contribute part of what was known as the "pension fund surplus" - estimated to be R80 billion at the time (or about 10% of GDP), although they really reflected accumulated reserves[5]. A 10% solidarity grant levy on those surpluses generated a huge initial amount, and incidentally helped make those companies more efficient in how they used their funds, so becoming more truly defined benefit pension funds[6].

The cost considerations were soon shown to be a veneer for other less laudable objections - like not wishing to alter the functional and personal income distribution, because those economists had their friends and relatives in the boardrooms around them, and not altering the distribution of public expenditure so as to reduce poverty and inequality directly[7]. With wage and income differentials among the greatest in the world, supply-side economic arguments about the need to cut social spending in order to give savers, investors and high-income earners greater incentives through tax cuts looked rather contrived.

Some economists argued against the idea on grounds of fiscal discipline, claiming that the whole economic strategy depended on reducing the budget deficit, which required the government to reduce social spending. Proponents of the solidarity grant, including prominent social leaders and ANC members, pointed out that even if one accepted the economic orthodoxy, cutting the budget deficit merely required revenue and expenditure to become closer. This did not mean that social spending had to fall. The fact was that public revenue as a share of GDP was low by international standards. South Africa was a low-tax country, and was still lower in effective terms despite the effort of the South African Revenue Service, which had improved the tax take by reducing tax evasion and arrears. By the end of the century, government revenue was less than in many other developing countries, and was less than two-thirds of the average in industrialised countries. The average tax ratio of 26% was also low by international standards in general[8]. And it was low for countries with similar economic characteristics[9].

It was also pointed out that, expressed as a share of national income, social protection spending was low by international standards. At the end of the 20th century it was about 23% of GDP, which was actually an overestimate of the true amount because unlike most countries, most of the expenditure was in the private service sectors. Part of private expenditure is essentially consumption rather than protection spending, reflecting consumer demand, often reflected in conspicuous perks. Nevertheless, even taking the 23% figure as the reality, it compared with over 40% in several industrialised countries, including France and Italy, and was lower than many developing countries as well.

When the solidarity grant was introduced, because it did not involve a means test, it was found that very soon many more people were entering the recognised monetary economy, boosting visible economic growth and raising taxable income - a dynamic cost-balancing effect that had not been taken into account in static cost analysis. Moreover, this had a beneficial effect on the international capital markets, because it showed that the country was experiencing more rapid economic growth and that employment growth was occurring, which the old labour force statistics had largely concealed (which is another story). In short, the dynamic costs were even less than the static costs.

The critics had also said it would be *inflationary.* But this proved unfounded, because the shift in the structure of demand for goods and services led to a rise in the demand for basic domestically-produced tradable goods and services, and induced an increased supply of such goods and services - a cut

in the demand for high-cost imported goods. That, of course, had favourable effects (small at first) on the balance of payments, which tended to strengthen the Rand and reduced inflationary pressure. Another cost-reducing effect of the solidarity grant was that it started to generate small community projects that reduced the need for some government-funded schemes that had high administrative, efficiency, displacement and deadweight costs.

However, you must remember that the greatest cost saving bonus took time to take effect. Petty vandalism and the incredible level of crime in the country started to fall. Research in the middle part of the past decade, around 2005, tells us that people, especially the young, started to have more self-respect, with a bit of money in their pockets, and the wherewithal to travel in search of work opportunities, education and so on. Criminal activity started to become less an acceptable part of the survival strategy of urban and rural youth, and moral pressures to behave like true South African citizens started to grow. Of course, once crime started to fall, investment - especially foreign direct investment, with modem technology - started to grow. The cost of the solidarity grant began to look not just affordable, but essential.

(ii) The 'targeting' argument

The critics then turned to the theme that a solidarity grant would cost more than a targeted, means-tested social assistance scheme. Critics wanted the Government to have a more "targeted" scheme. This was subject to intense debate. A social assistance scheme gives a basic income to those who fill in a form to show they are poor. It might appear that a universal solidarity grant is more expensive because it is given to everyone, but it is claimed back in higher taxes on the non-poor. The associated "churning" cost was soon shown to be minor compared with the cost of administering and monitoring, and policing a selective scheme.

Another cost saving claimed by advocates of a means-tested alternative was something they could not make too explicit, which was that only a minority of the poor would actually obtain a means-tested benefit, so that the actual cost would be less than the budgeted cost. They tried to say that those not claiming "could not need the money". But this was soon ridiculed, even by the media. Critics and proponents eventually agreed that the cost comparisons should be based on budgeted cost figures. As for churning, it was soon realised that with modem technologies it was an easy matter to claw back from the non-poor in taxes, effectively moving to what we all take for granted in 2011, an integrated tax-benefit system[10].

The word "targeting" was one of those loaded euphemisms of the time, which have long since been shown to be rather silly. Anyhow, it was argued by critics that it should not be given to the non-poor as well as to the poor; better to use a traditional social assistance scheme, they said, by giving only to those who satisfied a means test. In response, supporters of the solidarity grant pointed out that nowhere in the world did a means-tested scheme reach the overwhelming majority of those living in poverty, because of low take-up rates, stigmatisation, lack of knowledge, fear of authorities in going to apply, and so on.

Evidence from industrialised countries showed that even where there were well-developed administrative facilities, only a minority of those entitled to means-tested benefits actually received them. The thought of complex means tests and asset tests functioning efficiently or equitably in rural and low-income urban areas, such as the townships, was mildly absurd. A targeted scheme would not reach the really poor. This was shown rather graphically, and sadly, with experience with disability benefits, which only reached about one in five people with disabilities entitling them to such benefits. And the newly introduced child support grant, extremely low in value, failed to reach many poor families. Means-testing just did not reach the "target".

The Minister of Welfare and Population Development put the issue starkly in a few pithy remarks about means-tested schemes existing at the time at a meeting of the National Council of Provinces in October 1999:

> *"We pay beneficiaries of social grants or take in applications under trees, in goods containers, in offices with no electricity, no computers or photocopiers. This is a recipe for fraud inefficiency, low morale and bad behaviour by officials."*
> *"Our beneficiaries are the poorest of the poor. They are old-age pensioners or persons with disabilities. Every month they have to endure the humiliation of long queues, unscrupulous loan sharks and arrogant officials. This we cannot tolerate."*

This was the reality. Some thought the appropriate response was to privatise the Welfare Payment and Information Service (WPIS), with the intention of raising the quality of the services. Fortunately, it was recognised that this was only part of the problem. There were many reasons for low *take-up of means-tested benefits,* including fear, stigma, lack of knowledge, distance from facilities and those other social realities highlighted by the Minister.

In response to the argument that means-testing was fraudulent in that it offered little chance of reaching most of the poor, and stigmatised many of

those that it did reach, a few defenders of means-testing cited the social pension, which had proved to be one of the major forms of successful re-distribution, apparently reaching nearly three out of every four elderly people in the country at the time. This on paper operated on the basis of a means test. But ironically, the relative success of the social pension proved to be one of the reasons for the eventual acceptance of the solidarity grant.

First, it was almost undeniable that the pension was beneficial for poor blacks, often helping to pay for the schooling of grandchildren, as well as being redistributive to the poorest groups in society. Second, and crucially, it was successful primarily because in practice it did *not* follow the letter of the law, in that the means-testing was largely a gesture. Third, it was noted that even though it was an excellent scheme in practice, nevertheless it did not reach all the elderly. Fourth, it actually became the basis for the solidarity grant, because it was realised that it was in effect a grant for the elderly population, which was easily converted into one without the written pretense of a means test.

So, the lobby for targeting and selectivity gradually lost credibility. International evidence was simply too strong, showing that while it was a way of reducing public social spending, it was also a way of denying minimal income security to a large proportion of the poor and economically insecure.

(iii) The "uncontrollable level" argument

Another criticism at the time was the fear that it would become uncontrollable, rising as a result of populist political moves, perhaps just before general elections. Even defenders of the proposal saw this possibility as real enough to cause them concern. The answer proved quite simple. Just as monetary policy was taken largely out of the hands of politicians by making central banks independent of government - as the Reserve Bank had been - so it was agreed that the value of the solidarity grant would only rise at a rate equal to the rise in the value of national per capita income. One-off upgrading could only be agreed if two-thirds of Members of Parliament voted for that change.

Just as the determination of the level was made independent, the administration of the grant was also made independent of government, overseen by the Solidarity Grant Commissioner[11]. In these ways, the fear of populist misuse of the grant was assuaged, and it gained credibility.

(iv) The "disincentive to labour" argument

The next big line of criticism at the time was that a solidarity grant given to

everyone without obligation would induce laziness. It would, they said, be a disincentive to labour. My dear, what a fuss they made about that! Defenders of the idea had to explain again and again the effects of the *bolsa escola* and *renda minima* schemes in Brazil. But they began by pointing out that, compared with means-tested selective schemes, a universal grant actually provided a greater incentive to search for and to take jobs, *particularly low wage jobs or low-income own-account activities*. Since this is precisely where most new work opportunities were emerging, this was crucially important.

With means-tested targeted schemes, there is a very marginal tax rate for those moving from having no income to some income, or in moving from being unemployed and receiving unemployment benefits to low-income employment. This is because one day you have a benefit and the next you have an earned income that results in the loss of the benefit. The effective tax rate is a combination of the tax paid on the earned income and the loss of state benefit. So, presuming that no tax at all was paid either on benefits or initial income, if a person was receiving social assistance of R520 and then obtained a job paying R600, the effective tax rate would be nearly 87%. So, taking a job and working 44 hours a week would give about R20 - hardly an incentive.

The Ministry of Finance, or Treasury, realised that this would have been absurd, and that such a system would accentuate the problem of barriers to entry to the legal labour market and an inducement to work in the grey economy. They realised that this would expose more workers to unsafe working conditions and result in a failure to build up long-term entitlements, a failure that would eventually result in their being dependent on state social assistance because, being in the grey economy they would not have private insurance benefits or access to state-based support.

(v) The "lowering of wages" argument

A worry on the political left about the solidarity grant, which was a concern of some in COSATU, was the view that the payment of a guaranteed solidarity grant to workers would allow employers to lower wages and increase the "exploitation" of workers. Although those advocating the grant understood the fear, they pointed out that it would have the advantage of strengthening people's ability to say no to the offer of very low wages - the assurance of a guaranteed income giving them a slightly stronger ability to say "drop dead if offered a derisory wage, or if treated badly in a job. Thus, this objection also soon faded away.

The Advantages for South African Children

One of the great advantages of the solidarity grant was that it helped reduce child poverty by providing money directly - the grant is for all people, albeit at 50% for children under the age of 12 -and by providing their mothers with a grant, which they were able to use to support their children. It must never be forgotten how close the country came to abandoning the first post-apartheid generation.

An official report entitled **The State of the Nation's Children** published in late 2000, along with a study for the Children's Budget Project, showed that poverty among children was not only extremely high but was also rising - with 72% of all children aged 0-18, more than 12 million children, in poverty, and with the mortality rate of children aged 0-5 years. This was before the effect of AIDS became substantial, but even then a large and growing number of households were actually "headed" by youngsters aged 10 to 17. This potentially amounted to a very disappointing legacy for the first generation of political leaders after the end of apartheid. Politicians dislike the thought of a negative legacy, and in this case they did not wish to fail for noble reasons. They realised the danger, and knew that decisive action was required. The solidarity grant was an effective way to address the crisis.

A related advantage was that the grant was linked to school attendance. Payment of the solidarity grant to parents was initially made conditional on obligatory school attendance by their children if they were aged 7 to 14[12]. This resulted in higher *and more equal* school participation levels, and that in turn put pressure on local authorities to make more facilities available. Another good point about the solidarity grant was that it enabled some children living a long way from the nearest public school to be able to pay for local transport and to be more nourished, because of the income, and to be more capable of attending school and *concentrating* once they were there. We have seen the advantage of better attendance rates in recent years, especially now that more black children are moving into tertiary education. As such, we can say quite legitimately that the solidarity grant has strengthened the country's long-term economic growth potential.

The Advantages for Women

Neo-classical economists predicted that giving an unconditional income transfer to people would reduce work. Proponents of the solidarity grant argued at the time that it would do precisely the opposite. In this, they were supported by the experience and detailed evaluations of the *balsa escola*

schemes in Brazil. The introduction of minimum income schemes in Brazilian cities had led to a sharp increase in female labour force participation rates[13]. The reasons were that it gave the women enough money to be able to afford clothing and travel to go in search of employment, while their children were more likely to be attending school.

A second reason for the outcome confounding the predictions of the neo-classical economists was more subtle and gave new meaning to real development. Old labourist schemes of social insurance tied the provision of benefits to the performance of labour, which meant in practice formal wage labour. But of course many forms of work are not labour, and many have greater use value than some forms of labour. The work of caring for children, elderly relatives, people with impairments, victims of AIDS and so on surely deserved just as much social protection as the labour of making tea for the boss. *Community work* and *voluntary work* were also valuable and undervalued in national accounts. *Informal petty farming* was often neglected in labour statistics as well.

In all of these cases, women in South Africa were heavily involved, and in that they were contributing to the real process of human development - and not being recognised as doing so. The solidarity grant helped to legitimise those activities, and in some cases led to a marketisation of the activities, suddenly transforming them into economic activity, thereby boosting observed growth. And by increasing their visibility, it helped to lead to the emergence of organisations to represent their interests and needs.

The Advantages for the Economy

One of the difficulties at the turn of the century was that the demand for basic wage goods and the services that lower-income groups would want was low because the purchasing power of the poor was definitionally small. The Solidarity Grant helped rectify that, and stimulated the so-called informal economy, consisting mainly of small-scale, African businesses. Some described this as petty capital accumulation, others used the populist term of "the informal sector".

Whatever the name, the boost given to it by the solidarity grant was much more effective and sustainable than would have been the case if heavy subsidies had been given to what were called "SMEs" (small and medium enterprises), because such subsidies were prone to hefty deadweight and substitution

effects. The payment of a grant to people who became consumers meant that there was pressure immediately to produce goods and services that people actually wanted, and put more pressure on small enterprises to be efficient. And then of course there was the multiplier effect, the money in low-income communities generating demand for more products and more employment.

The long-term beneficial effects of this raised the country's long-term (or what some economists called "natural") economic growth rate. In particular, the increasingly sound domestic economic base helped generate international confidence in the economy, leading to that influx of foreign direct investment that simply had not materialised in the second half of the 1990s.

Conclusion

The South African solidarity grant was a response to the ANC's commitment, spelt out in a White Paper in 1997, where it was stated, "There will be universal access to an integrated and sustainable social security system." It made the moral and worthy commitment quite clear:

> "Every South African should have a minimum income sufficient to meet basic subsistence needs, and should not have to live below minimum acceptable standards. "

The South African solidarity grant achieved more than can be captured by the economics of the era. The African idea of ubuntu is based on the reality of social solidarity. The Social Welfare White Paper of 1997 asserted, "Ubuntu means that people are people through other people." Yet for a while that spirit seemed threatened by the march to a market economy that lacked an effective system of social protection to embed the economy in society.

The South African Solidarity Grant seemed bold, even radical, at the time it was introduced. Some politicians were worried about the gross sums of money involved, and mused about the dangers as they saw them. Fortunately, they were convinced. Others warned of the greater dangers of timidity, and some noted that, as the great social scientist Albert Hirschmann had observed - every progressive idea in history has been greeted by three reactions - the claim of *futility* - that it would not work -the claim of *perversity* - that it would have adverse effects on other parts of society and the economy - and the claim of *jeopardy* - that it would endanger other goals or accomplishments. Fortunately, the seriousness of the situation put such moral pressure on the politicians of the day that the risk of taking action seemed much less than the

risk of staying on the orthodox road. Has that not been the main way social progress has always come?

1. UNDP, The Human Development Report for South Africa (Pretoria, UNDP, 2000), Page 63.
2. A comprehensive assessment carried out in association with the Presidential Labour Market Commission had reached this conclusion some years earlier, and since then labour markets had become even more "flexible". G. Standing, J. Sender and J. Weeks, Restructuring the Labour Market: The South African Challenge (Geneva, ILO, 1995).
3. One name was used by critics, quite misleadingly. This was "the dole". The notion of the dole, as used in the UK in the 1930s, was quite different, since it was intended for the unemployed per se.
4. A landmark case was Government of RSA vs. Grootboom and others, of October 4, 2000. One factor in the successful introduction of the solidarity grant was that the Taylor Committee learned from the experience of GEAR and the Presidential Labour Market Commission of 1995. The latter was somewhat pre-empted by the quick launch of GEAR, which was not subject to any substantive public evaluation before its announcement and which was therefore accepted as official policy without delay or possible derailment by criticism from within the ANC.
5. It may be recalled that the surplus had accumulated because many people had been unable to exercise claims on the fund because they had not qualified for a pension even though they had contributed, in some cases because they had died, in some because they had quit jobs and did not have entitlement due to the lack of portability. The situation was truly bizarre, and there were fears at the time that lawyers' fees would eat up most of the fund if claims to payments went to litigation.
6. As the surplus shrank, partly because the levy encouraged pension funds to reduce their surpluses, the funding of the solidarity grant was augmented by the profits from the Social Investment Funds.
7. The economic orthodoxy of the 1990s was still prevalent among the slow-adapting economists in some circles. It went under the name of the Washington Consensus, which fortunately has long since been discarded as misguided.
8. M. Samson, K MacQuene, I. van Niekerk and T. Ngqungwana, "South Africa's apartheid debt" (Johannesburg, ESSET, 1997).
9. R. Harber, "South Africa's public finances" (Pretoria, USAID).
10. Moves towards such integration were greatly strengthened by the expansion of the Earned Income Tax Credit in the USA in the 1990s, and the Family Credit in the UK.
11. Fortunately, an experienced person was available, having been Unemployment Insurance Fund Commissioner, Shakes. He became the first Solidarity Grant Commissioner in 2002.

12. As in the Brazilian balsa escola schemes, the rule from the outset was that children had to have a 90% attendance rate over each term, unless they were ill or there was some other bona fide reason for non-attendance. There was some initial concern about school over-crowding, but with more children being able to attend school, local pressures soon resulted in more concerted action by local authorities to improve the quantity and quality of school facilities.

13. L.Lavinas et al, "The appeal of minimum income schemes in Latin America", ILO Socio-Economic Security Programme, Geneva, 2001.

CRIME AND COMBATING CRIME – AN ECONOMIC PERSPECTIVE

By Marc And Wolfgang Maennig*

Crime controls daily life and could become of even greater significance in the future of South Africa. Hardly anyone does not know a victim of crime, often severe, in his family or amongst his friends. The topic of crime received a great amount of attention - and rightly so - as can be proven by some figures: of the total of 9 million South African households 44%, reported at least one criminal act at a police station during the period from 1993 to 1997. In 1997 alone citizens in over 1,8 million households became victims of at least one criminal offense. In 1997 one out of 15 South African citizens became a victim of a criminal offense with assault.

Citizens of the age of 16 to 35 years are victimised more than the average and no significant differences appear to exist between people of different educational qualifications. Between 16% and 17 % of the households of the ethnic groups of Coloureds and Whites, which form ethnic minorities, reported criminal offenses in 1997; the figures for the households of Black and Indian/Asiatic citizens are 14,1 % and/or 11,4 %. Statistics show a significantly higher number of reported acts of crime conducted against men than against women. A significant percentage of undetected crimes is to be added to all this data and relevant calculations in this regard show this to be approximately 100 %.

High social costs of crime

It is clear that in spite of certain differences noted between gender, age, income, race and education as far as the effect of crime on the lives of individuals is concerned, crime is a problem affecting all social groups and the whole of South Africa. This results in immense costs for the young Republic.

These include, firstly, the victims' costs comprising of the physical or psychological damages suffered by victims and the costs incurred by the health sector in attending to such victims. A possible consequential reduction of income for victims or their employers must be added. Furthermore, the fear

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of potential or actual victims of crime may change their social and economic behaviour. Also, damages to the victims' property in cases of theft and damages to the respective goods need to be taken into consideration. In this instance, the full loss of property on the side of the victim is not included in economic analysis since it will correspond to a partial addition to the offender's property. Only the difference between the loss of property on the side of the victim and the gain of property on the side of the perpetrator, as well as possible damages, will appear as economic loss in analysis. Further costs to be taken into consideration are those that result from the intentional violation of the social attitude towards the forced redistribution of wealth. This admittedly somewhat abstract formulation hides concrete potential disadvantages for society. In South Africa, it can easily be demonstrated: crime levels have reached such proportions that investors are withdrawing from the country or reconsidering their willingness for new investments. Victims or potential victims with their professional, social and cultural competencies are leaving South Africa. These are no longer available to our society and the State's investments in human resources in terms of schooling and training systems are permanently lost.

Secondly, the social costs of crime include those resources used by the perpetrators in committing their crimes. Some points to consider in this regard are the possible loss of income through absence from work by the criminal when preparing and carrying out the crime, as well as the value of the resources used in the criminal act or the marketing of the illegally acquired goods. In the case of the approximately 1,2 million of damages to, break-ins into or theft of cars in South Africa as reported to the police during 1993 to 1997, the preparation and transport costs of the criminal action itself, as well as the disassembly and/or marketing of the stolen vehicles or vehicle parts must be included in calculations.

The social costs of crime, thirdly, include the costs of crime prevention incurred by private persons and companies. Examples include costs of safety locks, alarm systems, immobilisers, walls, safes, weapons and the use of taxis. Many citizens of the middle and higher income brackets seek protection by engaging the services of private security firms that are mushrooming in the country and that employed 450 000 persons in 1996 already - these figures being on the increase. Prevention costs, however, go far beyond the above and stretch into fields that are not as easily determined. Crime, for example, influences the consumption and leisure patterns of persons who are feeling threatened and will withdraw into the safety of their own homes during the

particularly dangerous time between sunset and sunrise. This leads to significantly lower income in consumption-related sectors such as the hospitality and leisure industry. This changed pattern of leisure behaviour reduces the attractiveness of the cities for locals as well as tourists. In every travel guide, for instance, tourists are advised to leave South African inner cities no later than sunset or even to avoid them entirely.

Fourthly, the public sector costs can theoretically be divided into costs of crime prevention (e.g. in the form of costs incurred through the development of criminal law, surveillance systems and police services) and those of law enforcement (e.g. in the form of costs of courts, correctional services and probation assistance). Such costs would include, for example, surveillance cameras and control rooms which have been installed for safety reasons in the inner cities of Cape Town and Johannesburg already and are planned for Pretoria.

This leads to the fifth category of costs, namely that of social punishment. This category includes the above costs of correctional services and probation officers as well as the psychological care of convicted persons. In 1999 correctional services had to pay 44 psychologists and 460 social workers. In the 1998/1999 budget over R3 billion were allocated to correctional services with its 162 000 prisoners - this figure excluded the administration costs amounting to R840 million. To this figure must be added the loss of income of the convicted persons during their imprisonment as well as possibly after their release as a result of problems in finding work after imprisonment. It is particularly the latter item that is of importance to the current discussion on the best possible way of combating crime. Those who voice their opinion against (harsher) punishments, and plead instead for educational measures, argue that imprisonment can lead to stigmatisation, traumatisation and possible qualification gaps which will hinder previous prisoners from being economically reintegrated into society. These effects are indeed of relevance when considering the national economy: in the USA young men released from prison showed a 25 % higher unemployment rate than their non-criminal peers.

The above should be sufficient proof that the economic costs of crime are significant. For the year of 1996 the estimated costs for crime caused through damages to private property and companies as well as the costs of the justice system amounted to approximately R45 billion. This corresponds to 7,9% of the gross national product of South Africa.

Economic explanations of crime

Against this background, it is not astounding that economists for the past 30 years have shown interest in investigating crime. Their activity, however, is not restricted to establishing the costs. They are rather using the economic tools to analyse measures with which the costs and, generally speaking, thus also crime itself can be reduced. Economists have the required competency in this regard since the limited public resources require efficient decisions to be taken. Such decisions include a choice between the obviously essential expenditures for police, justice, correctional services and possibly probation assistance and other similarly important public tasks, on the one hand, and decisions between the different measures of crime prevention, on the other hand. This presents economists with the typical problem of allocation for which suitable measures are then developed. Furthermore, economists consider the mathematical-theoretical models and statistical instruments to be particularly suitable to weigh phenomena of seemingly remote and irreconcilable dimensions, such as human suffering and financial costs and income, moral values and health risks, and to reach important conclusions in the field of crime research.

Pioneering work in this regard was conducted by Gary S. Becker in 1968 with his essay "Crime and punishment: An economic approach" for which he received, together with his other work, the Nobel Prize for economic sciences in 1992. Becker's central approach is that (potential) criminals in their decision for illegal activities, as well as politicians in their decision on combating crime, carry out an implicit or explicit cost-benefit analysis. The aggregation of the acts resulting from such calculations by (potential) individual criminals then constitutes the national economic "supply" of crime.

Politicians have come to the main insight that additional combating measures against crime result in increasing costs and that these costs may even rise to unproportionately high levels in comparison to the crime actually prevented by such measures. The politicians' cost-benefit analysis will thus lead them to a certain tolerance towards crime which can be referred to as the "demand" for crime - to remain with economic jargon. In the equilibrium of supply and demand we obtain the actual crime rate.

Crime as a result of rational choice

Individual cases have shown that the supply of most illegal activities (excluding

criminal acts done by persons under the influence of drugs or not in possession of their full mental faculties) results from a rational process of choice in which the individual chooses from a range of legal and illegal options of action the act that promises to render the highest net benefit at the given point in time.

Typically, the net benefit of any illegal activity, as calculated by the individual, will be the difference between the benefit of a "successful" crime for which the individual is not punished and the (negative) benefit when being arrested, sentenced, and punished. The latter three phenomena must not correspond to each other - for purpose of simplification we abstract from this in the following.

The calculation of the expected net benefit to be attained by the (potential) criminal includes, on the positive side, the benefit of additional income and/or property when a criminal act is conducted without arrest. Immaterial benefits may also play a role, as for example, a murder that may satisfy feelings of revenge.

Negative factors of the calculation will be the chances of being brought to justice and the sacrifice of benefits as a result of punishment, that may consist of fines or loss of income during or after imprisonment. Non-monetary sacrifices of benefits may be a loss of reputation. Furthermore, the costs of conducting the illegal activity, such as the direct costs incurred in the planning and realisation of the act, as well as costs of protecting oneself to avoid punishment, constitute a negative factor in such calculation too. The individual's opportunity costs resulting from the fact that some illegal activities may require substantial time and thus the termination of legal activities, with pecuniary and non-pecuniary benefits, constitute a further negative factor in the calculation. Even moral values and/or their sacrifice are included in the calculation of a (potential) criminal.

The values mentioned above would also explain why even within similar frameworks, such as laws etc., the crime supply can differ significantly from one region to the next and from one country to the next. If certain forms of violence have become part of the general behavioural patterns accepted by society, the threat of legal sanctioning will only have limited success. In this way, for example, society's intolerance towards abuse of women and children in Europe contributed more significantly to the drop in assaults than did the increasingly harsh sentences. In South Africa, for example, rapists or child abusers face considerably harsher sentences than in Europe. In spite of this, the number of crimes committed in this field here is very high. In 1998 alone almost 50 000 rape cases were reported. Thus the attempted explanation is that violence is still widely accepted as a means of dealing with family or

gender-related conflicts in our country.

Crime supply increases if crime is lucrative

Such an economic perspective leads to various conclusions. For example, it can be explained why some individuals commit certain crimes and others do not. Within otherwise identical conditions, one individual that is better educated, skilled and talented (and thus has higher opportunity costs) than another will thus be unlikely to opt for the illegal act of theft. In the case of offenses such as tax evasion, this may be different because the expected pecuniary benefit of such a person may be higher. And individuals with high moral standards and/or costs will resist illegal conduct for longer even if the expected benefit rises. Or as Becker puts it; "Some persons become 'criminals', therefore, not because their basic motivation differs from that of other persons, but because their (perceived) benefits and costs differ".

However, it also becomes evident that an increasing expected net benefit to be achieved from a crime may lead an individual to "offer" more criminal behaviour. This also applies to the national economic supply of crime.

Tolerating crime may be described as "demand"

Concerning the willingness to tolerate illegal behaviour, or "to demand illegal behaviour", the private and/or public decision makers involved with this side of the market of crime are obliged to minimise their individual and/or national economic costs. The following only covers the perspective of the public decision-maker who, however, must also take into consideration individual costs.

A crime rate on the rise is linked to possibly unproportionately high victim costs, private prevention costs, as well as crime planning and execution costs. This illustrates that public authorities can minimise the overall social costs of crime mentioned above by improving their crime-combating measures if the crime rate rises. On the side of the (potential) criminals this will lead to a lower expected net benefit from their illegal behaviour. The thus derived negative connection between crime rate and the expected net benefit from illegal behaviour constitutes the tolerance level or, economically speaking, the "demand" for illegal behaviour.

South Africa's case is well suited to prove in an exemplary manner the theoretical statements on the level of crime and the counter-measures

undertaken by the state. Since 1997 significantly longer terms of imprisonment have been legally enforced for severe crimes. Furthermore, for all prisoners release from custody on probation is possible only after at least half the sentence of imprisonment has been served. The implementation of this is reflected in the statistical data of 1998: in 1995 only one in twenty accused was sentenced to over 20 years imprisonment. Four years later this figure had increased to one in nine criminals.

Combating crime optimally - an economic perspective

Concerning the market equilibrium of supply and demand, which will lead to a balanced crime rate, important conclusions may be reached:

Firstly, for example, according to the above considerations, a high unemployment rate will lead to an increased crime rate because the unemployed must carry the reduced opportunity costs of crime. Empirical studies generally confirm this connection: an American survey showed this "positive" connection to be significant in 48% of the 42 empirical estimates. In a further 41% the connection was also "positive", but not significant. The theoretical considerations have shown that besides unemployment, an increasing imbalance of income (and wealth) will also lead to an increase in crime: For the poor the benefits to be gained from illegal behaviour are huge and the opportunity costs are low. A few international studies have statistically proven such a connection between an imbalance in income and crime. One possible conclusion (which will be discussed in greater detail below) would be that so-called "positive" measures to change the framework conditions (reduction of unemployment, redistribution of income) would be well suited to combat crime.

Secondly, the so-called "negative" incentives of increased possibility of punishment and/or harsher punishment would theoretically lead to a reduction in the crime rate. Empirical research confirms this. For all categories of crime together the median (value of the middle estimate of all estimated values ordered by size) of criminal elasticity of international studies, that estimated complex multiple-equation models and thus covered possible simultaneities of individual variables, lay at minus 0,84 for the probability of being sentenced and at minus 0,43 for the harshness of sentences. The latter value shows that after a one-percent increase in penalties the number of crimes will drop by 0,43 % – be it as a result of its deterrent effect or of the "elimination effect". The common opinion that harsher penalties or an increased probability of punishment are ineffective can thus be empirically proven to be incorrect.

The third important implication of an economic analysis of crime is that counter-measures are only to be applied insofar as their additional social costs in the form of prevention costs and punishment costs do not exceed the additional social benefits (especially victim costs and crime execution costs actually saved) resulting from such measures. Thus it can generally not be the goal of society to reduce crime levels to zero - because this generally leads to (too) high costs of prevention and punishment. From the point of view of economics, a certain amount of crime constitutes the optimal situation - or, in other words: can be tolerated.

The fourth conclusion drawn from an economic analysis of crime is important in order to be able to answer which of the described "negative", "positive" or "educational" measures are to be increasingly implemented. In this matter it is worthwhile to start by mentioning the formal condition which may possibly be hard to grasp for non-economists: the crime-combating measures are to be implemented in such a manner that the proportion of their additional social benefits to their additional social costs is the same for all alternative measures. Thus, for example, even if one measure is twice as effective as another, this measure may only be used for as long as its costs do not exceed double the costs of the other measure. This formulation clearly shows that the effectiveness ("benefit") of the measures must be weighed up against their costs. From the point of view of economics this is of utmost importance for a successful war on crime.

On the basis of these considerations, Becker, in his abovementioned essay, recommends imposing fines wherever possible: they can serve as effective deterrents (particularly in the case of offenses against property), victims can be compensated and the state saves itself the costs of correctional services and probationary assistance.

The demand that measures against crime should be chosen so as to ensure that the proportion of their additional social benefits to their additional social costs is the same for all of them, provides a rule according to which the current, frequently ideological debate on the correct policies against crime can be defused. Insofar as relevant empirical data is available, systematic decisions could be taken as to whether "educational", "positive" or "negative" measures should be implemented in the various categories of crimes.

As far as data is concerned, the best possible way of combating crime will differ from one kind of crime to the next. It was proven empirically, for

example, that in the case of crimes such as murder, a harsher sentence is less effective than an increased probability of punishment: a sentenced felon generally "does not mind" whether he is sentenced to 15 or 20 years' imprisonment. "Does not mind", in economic terms, means that to the (potential) criminal the expected additional costs of a possible extension of imprisonment by five years are zero or close to zero.

Insofar as the effectiveness of measures is concerned, empirical investigations show fairly clearly that generally the "positive" measures, such as the decrease of unemployment and the imbalances, have weaker effects than the "negative" measures (increase of the probability of punishment and harsher penalties). As illustrated above, such statements on effectiveness are not sufficient to draw any conclusions on their meaningfulness in terms of national economics. The argument of costs, however, does seem to speak in favour of positive measures - else further measures for the reduction o unemployment would long have been taken, even if it were not for the purpose of crime prevention. The same argument would presumably apply to measures for a reduction of the imbalance of wealth. Since the positive measures are less effective and more expensive than the "negative" ones, they currently seem to be of little effect from a economic point of view - at least as a measure of crime reduction.

When it comes to choices between the negative measures such as the increased probability of punishment and the increase of penalties, the calculation of costs becomes problematic as can be illustrated by the example of additionally employed police officers: even if the costs per additional officer can be clearly calculated, the question remains to be answered how many additional police officers will be required for a one-percent increase of the probability of punishment. A study has been carried out for the USA which reveals that every additional police officer corresponds to eight to ten prevented crimes. The conclusion reached in this American study, namely that the increased employment of police officers is effective since each police officer prevents national economic damages to the value of US$100 000, is, however, only partially acceptable: if it were possible to achieve the same reduction of damages at a lower cost through the increase in the harshness of sentences, this would be preferable.

Studies that estimate the additional costs as well as the additional benefits of various measures for the prevention of crime, however, exist neither on a national nor on an international level. This may be so because the calculation of additional costs of increased penalties would have to include the possibly

high costs of their political implementation. Besides these subtle "cost problems", it was further found that some of the insights gained are clearly in favour of a change in the policy of crime prevention. These include the realisation that the current mix of crime-combating measures failed to prevent an increase in crime. The empirically proven effectiveness of an increased probability of punishment, as well as an increased harshness of penalties, also seems to underline this. Strangely enough: although crime is an extremely pertinent issue in society, no systematic investigations for an optimisation of the "educational", "negative" and "positive" instruments have been conducted so far. Such a discussion, conducted in a systematic manner, would constitute a significant step in combating crime.

REGULATING FINANCIAL SERVICES IN S.A.

Rob Barrow Talks To Ben Turok

Barrow is Deputy Executive Officer, Financial Services Board

RB: Rob Barrow **BT:** Ben Turok

RB: My area of responsibility at the Board is Investment Institutions. This covers the stock exchanges that fall under the Stock Exchanges' and Financial Markets Control Acts, investment managers which also fall under those Acts, the unit trust industry which is under the Unit Trust Control Act, participation mortgage bonds under the Participation Mortgage Bonds' Act, and then a separate department that handles insider trading under the Insider Trading Act.

BT: The financial services industry in South Africa is said to have a very good reputation, do you think this reputation is justified?

RB: We have a well developed financial services industry, but I don't agree that, (particularly as far as the financial markets are concerned), we have a good enough reputation in international circles.

BT: What are they saying that is derogatory?

RB: I gain my understanding from interacting with regulators and various market participants around the world. There is a view that South Africa seems to have well-developed financial markets, a large and well-developed banking sector, stock markets that are surprisingly large for the size of our economy, and an incredibly well-developed bond market. But sometimes our way of doing things is brought into question. The local industry tends to look after itself and whilst many profess to want to do business with other parts of the world, and often bring foreigners' money into the country, but foreigners feel disadvantaged because of the local network of firms that look after themselves ahead of the foreigners.

BT: And the network is an old established one?

RB: Yes, I it stems from the isolation era of apartheid. During that period

business practices developed that were justified since on the basis that secrecy was needed in the prevailing circumstances. However many of the secret type entities and structures established were used to justify business practices that are not acceptable, and we are having a lot of difficulty in getting away from them.

BT: Are we doing something about it?

RB: Certainly, the regulatory authorities are well advanced in their attempts to curtail this type of unacceptable behaviour, but there is a limit to what a regulator can do. The rest of the law enforcement agencies need to be able to assist.

BT: What about our domestic reputation. Do people in business and finance have confidence and that the system works well?

RB: I think, the system works, but they make the system work well for themselves.

BT: Let me then turn to the current exposures in the press. There are allegations of malpractices in the financial service sector, and in the company sector. Are these going to help to bring people to book and clean up the industry?

RB: The tainted script fraud allegation has turned out to be false. There was a time, probably two years ago, when the markets were worried about the potential for tainted script. At that stage a number of the company registrars were not performing their functions adequately, and the concern was that when shares where dematerialised into Strate, this would flush out tainted script. There was also clear evidence that there were certain crime syndicates operating on scrip, and there were a number of scares where syndicates used various fraudulent techniques, building on the errors made by the scrip registrars. Sometimes there was collusion with the scrip registrars. Those syndicates seem to have been dealt with. So far Strate has not had one case of painted tainted scrip. I think there was a genuine scare in the market, particularly of those syndicate operations. But it may be that, what has been taken into the Strate system is the good stuff, and the remainder might flush out fraud. On insider trading, the public perception is that anything that directors do is insider trading and that is a bit of a problem. There is a communication issue as to what constitutes insider trading

with particular reference to these big fraudulent issues where we have had big company failures. The subsequent process flushed out all sorts of irregularities but those are not necessarily insider trading.

Insider trading is limited to somebody with knowledge trading in the shares to their own benefit. We have made a very significant impact on the professional market and on managers the management of listed companies. That's been done through the mandate that was given us in the Insider Trading Act, which at present is being brought into question. Criminal prosecution of insider traders is extremely difficult to achieve. In the United Kingdom there has never been one successful prosecution of insider trading. There was one in the Gilbey's case some years ago, but it was overturned on appeal. The Insider Trading Act is very modern legislation, which gives the FSB the mandate to sue in a civil court. All they we have to do is prove on a balance of probabilities that the person had insider traded, and that has been very successful.

We have nailed down a number of cases and reached a number of settlements. We have six cases that are in the process of going through civil action. We have reached ten settlements – the largest one is the most recent one – where an individual paid R4, 2 million to settle the civil action, and I believe that this has been very effective. The message that we are getting back from the market place is that we have shaken some Boards of Directors. Every couple of months when we have insider trading directorate meetings we publish a list of investigations that we are conducting. Companies themselves have gone to great lengths to improve their own internal procedures. Corporate governance rules and personal account trading rules have to make sure that insider trading does not happen. Of course, that is first prize. We get people to keep their own houses in order, and to prevent these things from happening up front. Unfortunately, the man who steals a loaf of bread to feed his hungry family goes to jail. While the fat cat insider trader just pays his way out. That is really an issue for society. On the fraud issues like the Leisurenets, and I can probably quote five or six others there are problems with. This is where big listed companies have failed and subsequently been exposed for significant fraud by the management has been exposed. Now, this does not fall under our jurisdiction, but it needs to be dealt with very seriously under the Company's Act which entitles the Registrar of Companies to bring about the investigations.

RB: When a company fails, the stock exchange will de-list the company, but it does not have the mandate, or in fact the desire, to then go and investigate the matter and make sure that the directors who were fraudulent are actually held to account.

BT: So, if a journalist spots something, who is supposed to go for these people?

RB: In the Leisurenet case a Company's Act Section 417 enquiry was called. Now, because it has gone into liquidation, in theory, the liquidators, through the 417 process and the judge/convenor of the 417 enquiry is supposed to report any illegalities to the prosecuting authorities. I believe that that is not being done adequately.

BT: Who is responsible?

RB: Trade and Industry and Justice. There seems to be some activity by bodies like the Scorpions and the Office of Serious Economic Offenses – the Internal Directorate, they call themselves. Their resources are extremely strained and I don't believe that these issues are being properly investigated.

BT: Well it is clear from what you are saying that this is a very high priority for Government and Parliament.

RB: I think it is a high priority. I often find myself saying: "Hang on, but we can't get involved in that because it does not fall under our legislation, it is under the Company's Act, the Bank's Act, or some other piece of legislation somewhere else".

BT: But can't you phone the Director General of Trade and Industry and say: "I've got a case here, which falls outside my jurisdiction, but is of concern to us, can't you jointly as two 'public servants' co-ordinate something and get going"?

RB: Yes, but you always get the same answer. They don't have the resources or the capacity.

BT: So, partly it is a turf problem?

RB: It is partly a turf problem, but something needs to be done about it.

BT: But the Cabinet has clusters to co-ordinate government in the sphere of economics, and I would have thought that if somebody drew the cabinet committee's attention to this something would happen. Because this turf issue is affecting the economy.

RB: I don't disagree with that. I believe that this should all be under one regulator, be it banking, be it markets or whatever.

BT: Something like the Intelligence Centre that we are setting up.

RB: I believe so, yes.

RB: The other area that we are attempting to address is the so called intermediaries, which will be dealt with under the Financial Advisory and Intermediary Services Bill. There is a massive gap in our regulatory environment where you have got all these so called intermediaries who are basically, commission agents that are out there hard-selling various types of products to the public. They were never subjected to any form of scrutiny as to their integrity or honesty. Often you find them moving from one entity to another. They move about from one unacceptable practice to another. They pop up in another city, selling something else.

BT: But the main culprits are the people who employ them.

RB: Yes. There's an issue there. All they want is sales. They use these people and they pay them commission.

BT: Can I turn to another issue? You have oversight over this whole industry. What sort of contacts do you have with them? Do you meet them regularly, consult with them, do you encourage them, and do you criticise them?

RB: It is different in the different areas, but in the unit trust industry for instance there is a lot of ongoing interaction between us. Not only with the industry body, the Association of Unit Trusts, but also with key players in the industry.

BT: Do you wine and dine?

RB: I am not the sort of the person that enjoys wining and dining extensively,

so, a lot of it is genuine hard nosed business interaction.

BT: About regulation?

RB: About regulation. We have the Unit Trust Advisory Committee where the industry is represented and there is an ongoing interaction. We have different methods of getting feedback. If I perceive that the industry as a whole is doing something which I am not comfortable with, we sit down and deal with it. Sometimes is it one particular supplier or and sometimes it is a general problem in the industry. Or the industry sees the mutual fund industry in the United States or the unit trust industry in the United Kingdom doing something, and they want to be able to introduce similar type products in South Africa. They will then try and convince us that we should be amending our regulations to enable them to do so. A classic example at present is hedge funds. Hedge funds are the in-thing in all the different parts of the world but we do not permit them to use highly leveraged hedge fund type strategies in our industry.

BT: You were saying the Stock Exchange is another area?

RB: They're a self regulatory organisation. They have their own very extensive surveillance operation, but there is ongoing interaction between surveillance and ourselves. More, we also interact at various committee levels, and we have a representative that sits through all their board meetings and all their main committees so that we are constantly aware of what is going on. That is how we monitor. Our role is to keep oversight of the self regulatory body. We do that primarily through ongoing interaction. There is always one of my people at the Listing Committee meetings. One of my people is at their weekly executive committee meetings.

BT: Can't they meet without this person?

RB: They can caucus alone, but they cannot have an official meeting. The brokers get together themselves but not the management of the stock exchange. It can happen. There can be a hidden agenda by the management of the JSE but I don't believe I have ever come across that. must say that, we often go head-to-head with the management, very often. There are numerous situations where there are very difficult discussions between us where they are seeking to do something we do

not believe to be in the public interest, or equally fair to users of the exchange.

BT: Is the JSE a neutral body?

RB: It is a lot more neutral now than it was a few years ago, I can assure you of that. At least under the present structure you do have a board of directors, whereas previously you had the JSE Committee which was primarily made up of stockbrokers. There has been a distinct improvement.

BT: You think that the ordinary shareholder is well served?

RB: By the JSE, yes, I do.

BT: And you protect their interests?

RB: Certainly.

BT: What other areas do you have contact with?

RB: There is the bond exchange, and previously Sadex SAFEX. We have similar interactions with them. The participation bond industry, because it is a lot smaller, there is obviously less contact. We have quite a lot of contact with overseas suppliers, overseas products and clients, seeking to come into South Africa. The most common one recently has been collective investment schemes, unit trusts, where they seek to come and promote their product in South Africa so that people can utilise their R750 000 foreign exchange license allowance to invest off shore.

I think we have adopted a very successful approach. We have allowed the foreigners to come in to solicit business in South Africa but have strict control over them. We will not allow an unacceptable product into the country. We will not allow a product that is not regulated in its home market to a standard which we believe is acceptable. We will not allow a product in and do things which we do not allow the local industry to do. They have to establish a presence or be hosted by a local unit trust management company.

BT: Are these people out for a fast buck people?

RB: We have kept out the fast buck operations successfully. The ones registered here are the very respected houses around the world. They have an advantage because the perception is that investing outside is a better bet than investing inside South Africa.

RB: The official figures for the amount that has been taken out in terms of the R750 000 allowances was R17 billion since the facility was created. However the collective investment scheme operators, that we have authorised to operate here, have something like R55 billion of South African money under their management. There is no doubt, there is also a lot of South African money that is on its way out of the country, probably from years ago, invested in these type of entities.

BT: When you say South African money, you mean residents?

RB: The figure I am quoting you is a figure that these operators are required to give us on a quarterly basis.

RB: The full R17 billion is not included in the R55 billion, because a lot of people might have taken their money out and invested it in Las Vegas casinos, or property, or something else. There is still a great desire by South Africans to invest outside and the reason for that is the perception that the Rand is going to continue to weaken. It has been a bit unfortunate. A lot of people were encouraged to take money out of the country to invest in the American and European markets at a time when they should not have invested in those markets. It is the wrong decision, but people have this belief that you have to get your money out to invest somewhere else in the world.

BT: But people are telling them to do this every day in the newspapers, adverts, every day.

RB: Bearing in mind that the American and European markets have come off very substantially this year, the answer is that they have probably lost money over the last year, but overall gained substantially compared to what they would have done had they invested locally. Not only because of the depreciation of the rand, also our markets have not performed over the last five years.

BT: Now the people you deal with are pretty powerful. Do they lobby you?

RB: There is an ongoing element of lobbying, seeking to get us to see things their way. That is the challenge of the job we do.

By the way, on these collective investment schemes foreign applications, we have turned down a number of very powerful investment institutions from around the world where we were not happy with the structure of their schemes, and there has been some negative comment in the press.

BT: How big are the South African companies compared to the foreigners?

RB: Some of these foreign entities are enormous, such as the Merryl Lynch's, and J P Morgans.

BT: And you were able to stand up to them?

RB: We've got the law of the country behind us, so it is actually not that difficult. Of our local entities, generally speaking, the size of our operations in international circles is very small and even our banks are certainly not in the same league.

BT: Do they ever try and use political influence?

RB: There have been instances but it has never been a problem. Our Ministers and our Government have been exceptionally good, the matter is left in our hands to make the decisions.

BT: So, there is no kind of crony capitalism around?

RB: I have never come across anything like that. I think our independence as the regulator, has been respected at all levels and I have no hesitation in saying that.

BT: So nobody comes to lean on you from Government or the Cabinet and says "look, you know, your job is on the line," or something like that.

RB: I think if that ever happens my resignation would be on the desk within minutes. There is no hesitation in my saying that, and I think a lot of my fellow senior people in the FSB would take exactly the same route.

BT: What are the principles of regulation?

RB: We either regulate directly, or oversee a self-regulatory body that does the regulating. The objectives of regulation are:

- Promoting the national economy
- Promoting an efficient financial system
- Promoting confidence in SA financial system
- Facilitating access to financial services
- Reducing financial crime
- Protection of all parties
- Promoting public knowledge of the financial system.

These are achieved in two ways, by supervising market conduct, and by ensuring prudential behaviour by institutions in the market.

BT: I think you were saying earlier, that on the whole, a lot of it is quite effective.

What is your relationship with people who are, active in the industry, such as lawyers, accountants, financial advisers, and so on?

RB: The relationship is built up through interacting with them when they are representing their clients. Sometimes it is fairly hostile as in insider trading. Accountants are involved when we conduct an inspection.

BT: Sometimes one gets the impression that there is a rather cosy relationship between various departments and these professionals. Sometimes it looks like an "Old Boys' Club".

RB: The objectives of regulation, are to promote the industry, to make things happen. As a regulator you continually walk on this fine line, between promoting efficiency and growth in the industry, and hence the economy, but at the same time, protecting the interest of investors. The trick is to keep that balance between the two. You are not there solely to protect investors.

BT: You seem to be saying that the FSB does a neutral job in the interest of the country, above all?

RB: Yes. I have no hesitation in saying that.

BT: Judge Nel came out with a statement that the accounting profession is behaving very badly.

RB: I am an accountant by trade. I have operated in the profession for many years. Masterbond deserves all the criticism that the Judge gives it. But you can't judge the entire profession by only one particular case.

BT: What about enforcement?

RB: We are not an enforcement agency. The only area where we are empowered to fine people is in relatively simple matters for people rendering returns late. Our mandate is to identify areas and hand them over for prosecution wherever appropriate, typically the Attorney General.

BT: Do you monitor and make sure the job is done?

RB: I think there has always been a problem in this country. I don't think there has ever been sufficient capacity to properly prosecute white-collar crime. Steps have already been taken in the form of the Scorpions and in the form of this special commercial crime operation in Pretoria and Johannesburg, so steps have already been taken. We are very supportive of the efforts that are being taken, but I think we need more.

BT: What about having a single regulator?

RB: It is clearly an international trend and if we want to harmonise our markets, or make sure that we continue to be perceived, to be equivalent to the best in the world, . We need to follow this.

BT: The FSB is an independent organisation funded through taxing business and yet you are an official regulator. What sort of contact do you have with other Government areas, for instance DTI, Treasury, the Reserve Bank, and the Policy Board?

RB: There is some interaction with DTI and there is a lot happening there which is very encouraging. With Treasury there is ongoing contact, we have regular meetings with the Deputy Minister, and there is also a certain amount of interaction with the Minister himself. With the Policy Board, and the Financial Market's Advisory Board, every piece of legislation we deal with obviously goes through them. With the Reserve

Bank we have, two bi-monthly meetings on regulatory issues.

BT: The banks are really very separate from you, regulating banks is very much for the Reserve Bank.

RB: Yes, except with where a bank there is also a stockbroker. The stockbroker element falls under us. If it's got an investment management business then it falls under us. Sometimes banks own insurance companies, and insurance companies own banks, and the international concept of bank assurance, as it is called, means that the distinction between what is traditional banking business and what is insurance business is blurring. Risk transfer techniques, banks packaging their bad debts and selling them into the market. So the traditional banking business and the insurance business and the investment management business, is all blurred.

BT: If you were a foreign investor, with quite a lot of money and somebody said: "South Africa is a very good merging market, the fundamentals are sound, skilled personnel, and so on", what sort of factors might influence you?

RB: There is a category distinction between portfolio flow and FDI. It is somebody coming in prepared to finance venture capital type operations. It may be an entity looking at gaining a long-term exposure to our top 40 companies. That would typically be a pension fund sitting somewhere else in the world, saying the South African economy is looking good and looking at the macro issues. They are not coming in to try and make a profit to get out. That is medium to long-term investment. That's good money because it tends to stick. It can get out very quickly. If I were an investor sitting in America or Europe, I would be looking for a premium on investing in South Africa. I would want a higher return than I could get in Europe, because the risk clearly is perceived to be greater. That's really the way they tend to think, in terms of risk. Clearly a good premium and a good return. You have got to factor in that our currency is weak.

BUDGET AUSTERITY AND SOCIAL COST

By Ben Turok*

On a recent visit to the UK I was surprised to find a great deal of debate about the same kind of issues that we are worrying about here. I thought that Mrs Thatcher must be very pleased with herself. Not only does she continue to influence who leads the Conservative Party but her policies of tough macroeconomic policies and lean social spending has persisted under New Labour. Getting "sound fundamentals" in place has thus far had priority over sound social policies.

The only problem is that it has not worked for the majority of Britons, though there are signs that corrective measures are being introduced discreetly, largely by some modest redistribution through the benefits system. There is also talk of increased health spending funded through increased taxes.

But the better life promised by Labour is not in evidence, instead serious structural problems abound bearing heavily on the daily lives of most people in Britain. A small minority of wealthy and highly privileged manage to escape by means of private medicine, country homes and city flats, personal chauffeurs and the rest, but even they must be conscious of systemic dysfunction.

To name but a few of the daily problems of ordinary people. Public transport has been neglected in favour of cars and lorries, which were seen to be more in keeping with a system which placed more value on individual worth and private enterprise. As a result many roads are gridlocked. The privatised railways are in serious disarray and London's underground is grossly overcrowded and inefficient. A recent report showed that compared to other big European countries, Britain had the most congested roads and the least electrified railways. Public frustration is tangible with damaging political consequences possible.

The President of the British Medical Association has declared that he would not use the National Health Service and the President of the Royal College of Surgeons said recently that the NHS is in a "desperate" state with "frightened patients" and "miserable, depressed and frustrated" doctors. One of the problems

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is that while there are excellent senior permanent nurses in hospitals, they are surrounded by ever changing temporary ancillary nurses drawn from the cheapest commercial agencies. Patient care has deteriorated seriously as a result.

Armed crime increased 40% from 1998-99. A recent survey of the work of the police showed that the problem of drugs and youth crime are much worse in recent years and heroin is a big problem. There is a new underclass of wandering youth who drift around the streets vandalising, drinking, loitering and stealing. The biggest killer of British women is alcoholism.

The once proud BBC has degenerated to producing programmes about getting rich quick by guessing answers to obscure questions or pap for non-working audiences passing the time at home or in pubs.

The North-South divide has increased and there are large problems of unemployment in Britain's northern industrial cities as manufacturing has declined. Last summer there were serious riots in towns and cities like Oldham and Bradford.

The reasons for this decline in public life and public services is illustrated by what happened in the National Health Service. A study showed that the present weaknesses are the result of "cumulative underspending" as part of "long term investment starvation and mismanagement". The same is true of much of the rest of the public sector, especially the rail system. There has been an investment shortfall of tens of billions of pounds in the sector as a whole. In the last two years the government has increased spending but the damage cannot be made good easily because "spending can only build on that which has gone before".

New Labour's strategy, like Mrs Thatcher before them, has been to use tight spending "to build up a war chest". But the system has suffered and the best they can claim now is that because "the fundamentals are sound", the economy has thus far withstood the global recession better than Japan and other developed economies. The lie to these claims is given by Chancellor of the Exchequer Gordon Brown himself in a forward to a recent book where he says:" The true test of the macroeconomic framework will come not just in attaining long-term stability but also in higher living standards and finding the resources to deliver world-class public services to an educated and employed population."

South Africans will find much of interest in these ideas. We too have followed budget austerity and the tough consequences have been exacerbated by

industrial policies driven by the urge to greater competitiveness globally.

It seems that many are now asking whether we may have pushed these policies too far as the need to roll back joblessness and poverty are haunting the country. One aspect of the current problems is the anxiety about government's capacity to spend money allocated to departments nationally and provincially. Has this problem arisen because of previous staff reductions and funding austerity? or are there other structural causes? The lesson from the UK is that recovering lost ground in public services takes many years. Our problem in SA is the greater because our policy is to expand public services to the disadvantaged.

The crisis in Britain's public services is at least partially compensated for by the traditions of the welfare state. In South Africa we have little such support so a job lost or sudden sickness carries much greater penalties for the victim. There is also a resultant loss of social energy and the danger of a public sense of malaise emerging in the townships and rural areas, which will be hard to reverse and which we can ill-afford at a time when all effort must be directed to building the economy. It is therefore even more important that we nurture our public services and extend them as best we can.

The global fashion of prioritising macroeconomic stabilisation has been adopted by many countries in the form of low taxes and small welfare state, though there have been important exceptions like Scandinavia, Germany and France where there are higher taxes and better services. In many cases, for instance Argentina, stabilisation has come at a heavy social cost, so much so that the Guardian editorialised in December last year, that if the IMF wants a solution "it should start letting Argentina put an end to the austerity that threatens to choke its economy". Subsequently the Guardian was to urge strongly for "the need to shift development thinking away from exclusive preoccupation with macroeconomic policy to recognising the economic benefit of investing in people, their health and education." It was the realisation of this imperative that led the Copenhagen Summit on Social Development to insist that growth must be accompanied by social measures (and not just safety nets). More recently the World Bank has urged similar views and even the IMF has called for "quality growth" which is defined in similar fashion.

What is not clear from all this is the extent of the trade-off between budget austerity aimed at stabilisation and an outcome which brings social malaise. We need some serious analysis to examine this issue.

REFORMING STATE-OWNED ENTERPRISES IN SOUTH AFRICA

By Mahomed Kamdar*

1. Introduction

The hosting of a refresher course for the Institute of Social Studies (ISS) alumni on privatisation and reforms in State Owned Enterprises in September 2001 in South Africa, was a most significant co-incidence. It occurred just two weeks after the largest public demonstrations in our democracy were staged against restructuring and reforming of state assets in South Africa.

No event since the installing of our New Democracy has ever received such massive public response. The theme of the workshop is, therefore, appropriate to the contemporary issues already in the public domain.

Much of the discussion in South Africa about state assets is extremely emotional, is often embedded in unsubstantiated contentions and, together, such features combine to exacerbate tension among stakeholders. In the circumstances, we need to be pragmatic not rigid. A large segment of the public sector has shortcomings and the state should not seek to own bureaucratic state institutions merely for the sake of owning them. Many of the state-owned enterprises are structurally weak and their weaknesses preceded a desire to privatise. While there are numerous instances of unsuccessful outcomes of privatisation throughout the world, attempts are being made by national government to improve the performance of existing state-owned enterprises. Legislation[1] governing the behaviour of public institutions has been passed that clearly defines wasteful, irregular and unauthorised expenditure.

Considerable debate was generated among ISS alumni about the use of the term "Restructuring of State Owned Enterprises" instead of the internationally popular term privatisation. Generally, other countries in Africa use the term privatisation. South Africa is probably the only country in the world where this terminology, to describe its attempt at reforming state-owned enterprises, is used. However, it implies more than a debate about terminology. South Africa

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argues in favour of a mixed economy with roles for all sectors. Restructuring is not simply a substitute for privatisation; it refers to a range of options that are employed in order to reshape or reform state-owned enterprises. Outright sale of public institutions is just one option in a bag of several tools for the restructuring of state-owned enterprises. Other options include equity sales in order to access additional funding, technology or markets, business reengineering, incorporation, sub-contracting, joint ventures, employee participation schemes and community partnerships. As at February 2001, a total of R19 billion has been raised, mainly from international equity partners, and R12, 4 billion have been used to reduced state debt[2]. The intended objectives of restructuring are to increase employment prospects, competition, raise revenue for the fiscus and to advance the agenda of black economic empowerment.

1.1 The history of the privatisation debate in South Africa

The Freedom Charter, adopted in 1955, reveals ANC[3]'s vision for the country. It states that "The mineral wealth beneath the soil, the Banks and monopoly industry shall be transferred to the ownership of the people as a whole", and that "the national wealth of our country, the heritage of South Africans, shall be restored to the people". During this period wholesale nationalisation or" orthodox" privatisation - a simple transfer of public enterprises to the private sector - has been the only type of public enterprise reform.

Mines refers to the above-ground activities related to mining (including extraction) and the associated physical infrastructure. Mining and mineral rights are separate issues and are governed by different dynamics. While the ANC claims that minerals in the ground belong to all South Africans, the current system of mineral rights prevents the optimal development of mining and the appropriate use of land[4]. This distinction between mining and mineral rights is crucial when assessing the reform of state-owned enterprises. Mineral rights are treated separately in this paper (see section 5).

It is, however, clear that the nationalisation of our mines is not on the agenda. This raises the question of whether the Liberation Movement has reneged on or retreated from its promises. In this regard two issues become crucial: what is manageable and what is the role of the central fiscus (which will be discussed in section 3.3).

It is impractical and undesirable to control every micro-economic unit. It is, in addition, not advisable to regulate the economy down to the last detail. In real

economic conditions, it is impossible to predict, in advance, the different problems that inevitably arise: consumers' tastes and fashions change; local and national conditions change; unplanned inventions and discoveries are made, and accidents, conflicts and unforeseen national disasters occur. "The international political and economic conditions are in a constant state of flux. Furthermore, the dimensions and complexity of modern economies are such that they defy total control even by all-powerful central institutions equipped with the most advanced computer technology in existence" (Medvedev R, 1975:252).

Moreover, contemporary South Africa, like any country, has to respond to the changes in the world economy. Our democratic transition is taking place at a time when changes are taking place in the global economic environment. These changes in the international economic system influence South Africa's domestic policy options, but this does not necessarily curtail our sovereignty. As ANC MP Rob Davies has said, "The ANC has thus taken a policy decision to engage pro-actively with globalisation and look for a beneficial re-insertion of our country, isolated by apartheid, into the world economy. We need to see globalisation as presenting both opportunities and threats, and to recognise that we have strengths and weaknesses in engaging with it"[5].

The current approach to restructuring state-owned enterprises must be viewed against this background. The withdrawal from the world economy is no longer an option. Technology, competition, market access, accesses to capital, as sources of credit and investment are crucial for development. Although participation in the international economy may not bring development, to forgo participation means to forgo development.

While the current attempts at restructuring state-owned enterprises are substantially different from the privatisation programmes observed over the last three to four decades, areas of disagreement and differences of perspectives exist between members of the Tripartite Alliance[6]. The ANC is committed to maintaining public utility corporations in state hands, but argues that this incorporation will take place on a case-by-case basis into the public sector. The ANC further clarifies its position when it says that "neither the state nor a private sector should be the only forces in the economy. Organisations of civil society including trade unions, community organisations, women and youth - need to be empowered"[7]. Similarly, the South African Communist Party (SACP) is neither opposed in principle to restructuring of state assets, nor does it deny that there is no role for the private sector; they want each case to be considered on its merits. The SACP is wary of privatising services, and

argues that stocktaking is required of existing restructuring efforts which should inform future initiatives. The SACP[8] cites the example of the failure of privatisation in the UK, for example the train disasters with the track owned by a different company to the trains, and conflict in the delivery of service that reduces coherence across the network with seriously declining service and safety standards. The labour unions, on the other hand, have a principled objection to the restructuring drive, which, they argue, reduces employment opportunities for their members. Both the labour unions and the SACP argue that the practical effects of free-floating shares and public-private partnership (PPPs) are the equivalent of direct sale of state-owned assets.

Both the labour unions and the SACP argue that while the National Framework Agreement[9] (NFA) stipulates the kinds of processes required to ensure effective and strategic restructuring, in practice, it does not work well. The NFA continues to be dysfunctional with labour, in particular, dissatisfied with the lack of commitment shown to the NFA by managers of public enterprises. Both the labour unions and SACP allege that the provisions of the NFA are too general, and difficulties occur in the details of restructuring. Moreover, the NFA is an agreement between labour and national government. Municipalities have proceeded with restructuring service provisions without seeking consensus with labour as the NFA does not legally bind municipalities.

A vigorous analysis of the situation is required. An understanding of what constitutes privatisation, and what does not, is crucial to an understanding of current reforms in state- owned assets in South Africa.

This paper will first attempt to define privatisation; then it will proceed to review the pitfalls of earlier privatisation programmes in South Africa and elsewhere, and, thereafter, make specific comments on mineral rights.

2. What is privatisation?

Privatisation generally refers to the process by which the state sells assets, or hands over or sub-contracts certain public services to the private sector. Deregulation is often coupled with privatisation, since it is another means through which state intervention in the economy may be reduced - this time by cutting back on the regulations governing the activities of private companies and entrepreneurs in the market place.

Ole. P. Kristensen (1988:223) points out that there are three distinct roles in the provision of goods and services - namely, the several roles of the arranger, the producer and the financer. The arranger decides what has to be provided and who is to produce the items to be provided, the producer actually performs the task of production, and the financer pays the bills. So privatisation, in its extreme form, implies that the private sector plays all three roles in which case private agents take responsibility for all these roles.

Privatisation would not occur if government plays the role of arranger or producer or financier. In other words, government can involve itself in economic activity in any one of the three ways:

1. It can itself provide a particular commodity through owning and operating the relevant institutions and employing the appropriate personnel;
2. It can subsidise the production of the commodity by using public funds to lower the price of the commodity below that which would otherwise be obtained;
3. It can regulate the provision of the commodity, regulating its quality, its quantity or its price.

So privatisation would not be complete if government becomes involved in at least one of the above tasks. Governments can become involved in the following ways: they may choose to sell an enterprise but regulate the industry; government may choose to stop subsidising production but to regulate the industry or government may re-define its intervention in the economy. The lack of government intervention in one area of government may be coupled with interventions in another area.

3. Have the pitfalls of privatisation been addressed?

Many of the shortcomings of privatisation observed during the last few decades have been addressed. A major concern in the past was the growth of private sector monopolies and the involvement of foreign players in the process. Of course, there will be some negative consequences. It could be that under the current restructuring drive, attempts to regulate the private sector might prove to be more complicated than actually owning and managing an entity. Some services (electricity, water and telephone) have been curtailed and their unit cost of provision has increased after restructuring. Many of the social services have been withdrawn from the low-income areas.

Private (or profit making) institutions have no incentives to expand services to the low-income areas.

However, the negative consequences ought not to be a reason to overhaul the policy and engage in a wholesale condemnation of the policy-stance but instead requires a positive review of the programmes. Improved legislation and regulatory authorities will have to be instituted at considerable cost. The role of shareholder compacts in advancing government's policy of social development could be reviewed in the light of service curtailment by public utilities.

The high level of unemployment is also a serious concern of government. If privatisation policy linked to the growth of an industry, or stimulating and supporting labour skills development to facilitate participation in a changing industry and economy, then it can avoid the pitfalls of unemployment.

Some of the major concerns addressed by the current restructuring programme in South Africa are as follows:

3.1. Is the growth of private sector monopolies unchecked?

It is quite clear from international experience that the simple transfer of ownership of a state-owned enterprise to private hands, and the dismantling of state monopolies do not automatically and logically lead to increased efficiency and competition. If this resulted in private sector monopoly this would lead to a reduction of micro-economic improvement and, therefore, could contribute adversely to macroeconomic stability.

The current official restructuring of state-owned enterprise strategy is explicitly clear that the sequencing of the restructuring of state-owned assets is a crucial element. The establishment of competitive markets has to precede any restructuring attempts of state-owned enterprise. The policy framework of the Ministry of Public Enterprises[10] clearly states that "the promotion of competition and of competitive markets should be an integral element of any restructuring strategy to ensure that the benefits of restructuring translate into lower prices, higher quality goods and services, and wider coverage. Wherever necessary, this should be undertaken within an appropriate regulatory framework. In addition, where there are social needs that will not be dealt with by a competitive market, government intervention will be necessary". The step

taken by government in addressing the skills shortages of labour[11] is one example of such intervention. The National Skills Development Strategy (NSDS) is geared towards providing labour with skills that are needed by employers and communities and not simply to provide training to unemployed people for the sake of being kept active for the duration of their unemployment.

In some industries, such as electricity and communications, where competition is minimised, regulatory authorities are instituted. However, the Competition Act of 1998, provides for the establishment of a Competition Commission whose brief it is to investigate mergers and to deal with competition issues. The commission's task is to ensure that all South Africans have an equal

opportunity to participate fairly in the national economy. The commission was notified of 738 cases since its inception in 1999 and has finalised 650 cases until the period ending 31 March 2001[12]. The Competition Commission has jurisdiction on all issues that involve economic competition and is required to consult with the relevant regulator.

With regard to escalation of service costs after the restructuring of state-owned assets, the Competition Commission has a formal mandate to investigate escalation of cost but no complaints have been tabled before it. Rising consumer cost is a concern in the light of the plethora of new competition laws.

3.2. The beneficiaries of the privatisation of state-owned enterprises

The process of privatising public or state enterprises has itself created situations whereby some individuals (cabinet ministers, highly-placed political officials), who are able to make expedient decisions because of access to information not available to outsiders, are in a position to use the process to benefit themselves. The privatisation experience of Britain is a clear example of this. British Telecom was sold for UKP 1,3 billion less than its initial stockmarket value. The British government was criticised when, after the first day of trading, the value of shares in the twelve distribution companies privatised in December 1990 rose by over 50% of the issue price. Moreover, many cabinet ministers of the Thatcher government became directors of the newly privatised companies. The response of the British Labour Party Government in 1997 was to introduce windfall taxes on the profits of privatised utility companies. The participation of cabinet ministers in state-owned enterprises earmarked for privatisation was the cause of a sustained public outcry. A similar trend is observed in Uganda[13] and in

Ethiopia[14] where the ruling party has been building a huge business empire over the last ten years with capital of US$ 435 million. These problems have been observed and reported in all regions of the world but the abuses appear to have been particularly significant in transitional economies[15].

The South African programme of restructuring of state assets seems to have taken care of this major pitfall witnessed in the British experiment. Clause 10 of The **Draft Code**[16] calls for the restriction on post tenure employment whereby members of parliament and cabinet ministers are prohibited from acting in a manner that takes improper advantage of their previous office. A member of parliament must refrain from allowing future employment prospects to create a conflict of interest. In addition, a member of parliament shall refrain from taking advantage of information obtained in the course of official duties and responsibilities until it becomes generally available to the public. The consequence is that those elected to public office may not engage in financial activity using non-public government information or information obtained in the course of public duty.

The recently released report[17] investigating the strategic defence procurement packages, also recommends that parliament "should take urgent steps to ensure that high ranking officials and office bearers, such as ministers and deputy ministers, are not allowed to be involved, whether personally or as part of private enterprise, for a reasonable period of time after they have left public office, in contracts that are concluded with the state".

It is reasonable to expect that the draft code and the well-received report on defence procurement, will increase the potential for finalising a code of ethics governing the period of post-tenure employment for all elected office bearers and senior government officials.

3.3. The role of the national fiscus

However, the central fiscus plays a different role, one that is increasingly oriented to welfare. The broader poverty relief strategy and the specific allocation for poverty relief are supplemented by a number of dedicated funds and agencies. These include the Umsobomvu Fund, the National Development Agency (NDA) and the recently created National Lottery Distribution Fund. The Umsobomvu fund is designed to invest in young people, develop their skills potential and invigorate job creation. The NDA was established to provide support to non-governmental development and service organisations.

The national lottery has accumulated substantial funds that will be allocated to a range of organisations through the National Lottery Act. Funds are allocated to charities and organisations involved in reconstruction and development, as well as in the arts, culture and the environment.

Moreover, government has granted tax-exempt status to public benefit organisations. Organisations participating in a range of public benefit activities - such as those of a benevolent nature and those that have a regard for the needs, interests and well-being of the general public. Tax-deductibility contributions include those made to pre-primary schools that offer an approved educare programme, primary schools, organisations involved in preventing HIV infection or providing care to those impoverished by Aids, children's homes providing care to abandoned, abused or orphaned children, organisations involved in caring for destitute aged persons.

The increasing democratic role of the fiscus via its tax policy should be seen as a manageable substitute for the wholesale ownership of mines. In a sense, the ruling party may have retreated in one area but has advanced in another area. The latter is more sustainable and clearly manageable, thereby, clearly, invalidating allegations of unfulfilled promises.

3.4. Sale of state owned enterprises to foreigners

Many of the ISS alumni (Zambia, Tanzania and Gambia) argued that many of the privatisation attempts in their countries resulted in direct sales to foreign entities. Local players, with no easy access to capital, were not able to bid for the purchase of state-owned enterprises. More importantly, the procedures governing the sale of these state-owned enterprises are often shrouded in secrecy.

The use of a Strategic Equity Partner to encourage investment and innovation in domestic industry has the effect of bringing in direct foreign investment. Recent examples of strategic equity partners are SBC and Telekom Malaysia consortium 30% stake in Telkom and the sale of the 20% stake in South African Airways to Swissair[18] (in 1999). Shares are also allocated to black (indigenous) economic empowerment groups. In practice, however, the views of the majority shareholder (that is government) are overwhelmed by the concerns of the minority foreign shareholders thereby raising a concern that holding a majority stake in a company does not automatically produce outcomes favourable to public interests - the New Zealand strategic equity partner in the Post Office would be an appropriate example.

The initial public offering of shares to equity partners is co-ordinated by reputable private sector institutions (in some cases international), and is transparent with substantial resources directed to increasing public knowledge of these complex processes. The openness of these procedures enhances accountability and legitimacy of the restructuring programmes.

Moreover, the use of equity partners has the potential to assist in slowing down the volatility of currency movement across national boundaries. It is alleged that the international trading of currencies sparked off the recent financial crisis. The participation of equity partners has the effect of "locking" in foreign investments in the productive sectors of the economy thereby reducing the easy movement of capital. The involvement of equity partners removes the vulnerability and high risks associated with the participation in stock exchange dealings. Shares and capital can change hands in stock exchanges by pushing buttons on the computer with possible adverse effects on share prices. The more a public entity is exposed to the stock market, the more the country is exposed to volatility of currency movement.

There are different ways of accessing private participation. A government may sell a state-owned enterprise through direct sales, strategic partnerships, concessioning or through public-private partnership (PPPs). If private investment is required, careful strategic evaluation of accessing this investment is required. PPPs with government holding a 51% share, is more likely to achieve its strategic objectives, than the listing of state-owned enterprises on the stock exchange. Each method is different from the other and it is therefore important to assess their strategic strengths and potential danger in each of the methods.

3.5. The promotion of black economic empowerment

A major legacy of the previous order was the prohibition of ownership and participation in the mainstream economy. Rectifying past distortions requires an empowerment strategy to facilitate the entry of black people and other groups who faced discrimination into the mainstream economy. The current restructuring attempts are aimed at expanding `ownership, training, procurement and self-management opportunities for black people, women and the disabled, both directly through involvement in state-owned enterprise management and indirectly through widespread ownership opportunities'[19].

It is reasonable to expect that the massive task of promoting empowerment will experience difficulties. Many of the empowerment exercises did not fare well

because of both endogenous and exogenous factors. Many "black chip" holding companies suffered between 1996 and 1999 because of currency volatility, interest rate increases and fluctuations of share prices. Another concern is that although a small-share option (Telkom 3% & Airports Company 4,2%) is allocated to black owners, this approach is disadvantaged by the fact that even small-share options require expensive borrowed funds. Black people do not have accumulated funds because of the lack of earlier opportunities to accumulate. In addition, "there is a growing concern that black economic empowerment has enriched a few fortunate players but left most constituents behind"[20].

In essence, restructuring of assets in South Africa ought to be predominantly about the "provision of basic economic empowerment to millions and millions of black South Africans through access to jobs, and through the provision of affordable and reliable electricity, housing, transport and telecommunications".[21]

None of the above suggests the abandonment of empowerment of local people. Already a review of existing strategy is being conducted. The concept of alternative service delivery is promoted and entails some degree of equity transfer or sale while others will focus primarily on changing operational responsibilities in order to ensure greater participation by employees and client communities.

4. Unemployment

The official unemployment rate is estimated to be 26,7%[22]. It is not clear to what extent the current restructuring attempts have contributed to the high level of unemployment. Former employees of public enterprises have formed their owned companies and are eligible to bid for contracts by former employers. In any event, this high level of unemployment is a concern for policy makers.

The question is: Will the longer-term benefits of restructuring in the form of more efficient firms and a more competitive economy, be able to re-absorb displaced labour? Is it likely that restructuring of state assets could increase total employment in the longer term? The restructuring attempt is relatively new and only time will reveal the full impact of re-forming state enterprises.

In the meantime there are workers who suffer "temporary" unemployment. This is the sine qua non of saying that the patient must first suffer before he recovers! This is not an argument that labour unions accept graciously.

The role of shareholder compact is crucial in this regard. Government has entered into shareholder compacts with state-owned enterprises. These shareholder compacts govern the enterprise-specific relationship with government. It states the rights and obligations of both government and the enterprise. It is apparent that in any future restructuring attempts, the shareholders compact must, unambiguously, contain elements of negotiations with labour. It then becomes critical for managers of state-owned enterprises to have a clear sense of public responsibilities and national priorities. In practice managers have acted on their own mandates (interests). National government intervention was not always forthcoming. The success of individual restructuring attempts will depend on the negotiation skills of the stakeholders. It is in these areas that a new understanding of the role of government is required.

The changing economy will make increasing demands on new skills in the workplace. It may be that workers with inappropriate skills, or with no skills, will not find employment. This requires additional emphasis on retraining and improvement to existing skill base. Under the guidance of National Skills Development Strategy (see section 3.1) 103 new programmes have been registered and 1 384 learners have commenced training since inception in February 2001[23]. The South African Qualifications Authority approves these programmes.

5. Mineral Rights

The issues surrounding mineral rights are specific and require additional explanation in relation to the restructuring of state assets. Mineral rights are presently held privately and are "locked-up". Holders of these rights are not conducting exploration activities for mineral deposits and prevent others from doing so as well. So, while there is a mining exploration boom in Africa, South Africa is not considered an attractive site because of a lack of availability of mineral rights compared with countries such as Zambia, Mali, Burkina Faso, Ghana and Tanzania[24]. For example, although BHP was on an Africa-wide expansion drive with a platinum mine in Zimbabwe in 1995, a gold mine in Mali and a string of exploration ventures across the continent, its exposure to South Africa in 1995 was limited to the joint venture with Benguela Concessions off the west coast of South Africa and Namibia[25]. A major explanation for the present situation is the fact that mining companies, considering entering South Africa, have difficulty in obtaining mineral rights because most of them are controlled by the private sector.

A major advantage of centrally controlled mineral rights is the removal of difficulties surrounding fragmented mineral rights and access to geological information. It is quite usual that farmers relinquish portions of the mineral rights of their farm to individual heirs, who in turn subdivide these rights amongst their heirs. This results in farmers owning "little pockets" of mineral rights. In order to conduct exploration, all these holders of mineral rights have to be located and persuaded to sign a prospecting agreement. This inevitably results in delays and even cancellation of exploration activities. The Vergenoeg Mining Company, for example, had to deal with 288 individuals just to acquire the right to mine a single deposit of fluorspar on the farm Kromdraai in Gauteng[26]. The cost in skilled management engaged in such mineral rights issues and the resulting project delays constitute a huge burden for the industry.

Because of the present situation, draft legislation will be introduced in national parliament[27], which will allow the state to be the custodian of these mineral rights and lease them back under licence to companies keen in new exploration. The "use-it-or lose-it" principle is also promoted to protect existing operators and guard against the unjustified hoarding of our mineral resources[28]. Attempts to return private mineral rights to the new democratic government must be seen as endeavours to release mineral terrain for new entrants, such as foreign mining companies or competing national mining houses. The international trend (for example Botswana, Australia, Canada and parts of the USA) is that when mineral rights are taken over by the state, a surge of exploration activity results, because rights are subsequently available to interested mining companies. The transfer of mineral rights is an economic necessity because not all companies are able to develop mineral deposits. Technical and managerial expertise are not available in all companies. In addition, the size of the project may not correlate with the size of the mineral developer. Therefore, the reversal of mineral rights to the new government aims to stimulate private sector activity in the field of mineral exploration and extraction. In this light, public sector intervention aids the mining industry and gives the private sector opportunities to participate in exploration and extraction activities. This represents an overturning of the standard perceptions of public sector involvement. Here, public sector intervention "crowds in" private sector participation in that the public sector does not substitute or replace private sector activity, but rather stimulates it.

6. Conclusion

The current attempt at restructuring of state-owned assets raises one important question: will government be better placed to pursue its development objectives and enhance the delivery of social services once it has removed some of the shortcomings of public ownership?

Since the programme is still unfolding, new contradictions are likely to occur and therefore it may be too early to draw firm conclusions. Inevitably, restructuring of state assets must occur and consequently new contradictions will emerge. The new contradictions must be seen as a challenge for policy makers and will elicit policy innovation for redress of new problems. However, underlying the restructuring drive is the need to shift our understanding of the role of state and government.

The official agenda of restructuring of state assets does not imply that government is keen to withdraw from the economy and, thereby, renege on its social responsibilities. In fact, a well-organised government is a pre-condition for delivery of social responsibilities. What can be observed under the current attempts at restructuring of state assets, is the changing nature of state intervention. Government is about governing and negotiating, and the restructuring of state assets is the terrain for the changing nature of government intervention, which is characterised by collaborating (with the private sector and labour), providing stability and enabling favourable conditions for all stakeholders such as labour, users of services, private sector and the historically marginalised communities. The role of an "activist" state, which is to engage with civil society, is not compromised and may be better placed than in the past to facilitate an environment that reduces poverty levels.

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THESES ON THE POLITICAL ECONOMY IN SOUTH AFRICA -

A Proposed Framework

1. The collapse of the Socialist Bloc generated ANC fears of isolation in a capitalist world order
2. This led to a substantial acceptance of the economic prescriptions of the international financial institutions
3. After 1994 the ANC believed that strong macroeconomic intervention was needed.
4. It soon became evident that the spending reductions were punitive.
5. Spending reductions reinforced the problems caused by the loss of management capacities in the public sector due to the Sunset Clauses.
6. The delivery of social services fell below expectations
7. Fiscal restraint held back income redistribution.
8. Industrial policy driven by the goal of competitiveness based on increasing capital intensity at the expense of labour led to serious formal sector job losses.
9. Despite remedial measures by government to address poverty through the budget, poverty rose in the bottom quintile.
10. The consequent rising inequality was exacerbated by the rise of an emergent black bourgeoisie assisted by government policies in the name of deracialising the economy
11. There was a decrease of political activity within the ANC and some evidence of falling social solidarity.
12. Rising crime and social alienation indicates tendencies to social trauma.
13. As macroeconomic stability has been achieved solutions to joblessness and poverty are sought in
    (a) releasing capital spending on infrastructure, or,
    (b) a safety net through income grants, or,
    (c) support for releasing the productive energies of the poor and unemployed through project funding.

BEN TUROK

* Critical comments to the above framework are invited.

"O, GO PLAY SOMEWHERE - AND STOP BOTHERING US!":

ON THE (IR)RELEVANCE OF THEATRE AND THE PERFORMING ARTS IN ECONOMIC SOCIETY

By Temple Hauptfleisch*

The State, Civil Society and Theatre in South Africa

In the run up to the Mandela/De Klerk "new" South Africa of the 1990's, one of the strongest lobbies for immediate and radical change in governmental spending was one which sought to get the state to remove (or at least comprehensively change) the 40 year-old state funded structures for the performing arts inherited from the Apartheid regime. The reasoning appeared sound and legitimate at the time: those structures had been set up to benefit and enhance elitist, European style art forms for the white minority. For almost 30 of the 40 years, those state interventions were almost exclusively intended to benefit the white segment of the population and those art forms imported by the colonial powers! Fundamental to this funding though was the generally held notion that artists and the arts in general are esoteric and delicate creatures needing to be nurtured and supported.

The notion of patronage is an old one of course, already well established in ancient times in all cultures and naturally enough features greatly in all the twentieth century literature on the economics of the arts. Questions such as "how much money is needed for what?", "how to get it?", "from whom?", "in what form?", "by what means?", "with what controls?", etc. are core issues. (See References below for some of the standard works in this respect - there are many more.) One of the core themes here is the magic 4% figure - representing the average percentage of people who appear to be serious theatre goers in virtually all countries. (In their 1983 book Kamerman and Martorella for example have a wide ranging overview based on a range of European and American surveys over many years. A South Africa survey in 1983 (reported in Hauptfleisch, 1987, 1997) largely confirmed this for the Western-oriented segments of the population.

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These ideas have led to large scale adopting of state interventionist funding by governments in most countries - some more than others. South Africa indeed was the first country in the British Commonwealth to achieve this, with the founding of the National Theatre Organisation in 1948 with a modest subsidy from the old Jan Smuts government (then in its final hours). Later (1962), when this single, rather modest project was replaced by the far more expansive system of four regional Performing Arts Councils, one for each province, the funding became much more direct and even quite lavish, as did the new theatre spaces provided for them. What is of course not always noticed is that a very large number of other companies thrived and other activities took place in those forty years, without such state funding. They either "went commercial" and cross-subsidised "serious" work with more profitable money spinners such as drawing room comedies, musicals, or thrillers and detective yarns. Alternatively they got targeted political or commercial sponsorship for largely activist political work at places like the Market Theatre. The latter in particular were indignant about their exclusion from state funding.

Towards a New Dispensation

So, during the run-up to 1994 the lobbyists fought to change the state system. What they wanted in place of it was some kind of objective, arms-length funding, represented at the time by the dream of an encompassing National Arts Council, which would ensure that all the citizens (i.e. all the theatre and performing companies) could have (equal) access to state funding. And this they got in the form of the 1996 White Paper on Arts, Culture and Heritage and the National Arts Council Act of 1997.

But lo, it appears now that they are not happy. For all of them, to their horror, found that the prize came at an enormous cost. It became clear to performers and artists in particular that the government had its own, very pragmatic, agenda: it primarily wanted to cut expenses in every conceivable field, redistribute the available money, and use it for more strategic and immediate purposes - such as social services, job creation, education, housing and medical services. Their arguments too were sound and legitimate, if you looked at it coldly: the country that the ANC and its affiliates had inherited from the Nationalist Party in 1994 was far from solvent (decimated by years of bizarre political ideological priorities, profligate but skewed spending, civil war and sanctions), poverty, joblessness, malnutrition, illness and illiteracy were widespread and of major concern, and there was an urgent political imperative to rapidly redress the socio-political and economic imbalances in the country.

An obvious place to cut costs appeared to be in the more frivolous areas of state funding, such as the arts.

Given these conditions, the new arts dispensation would provide approximately the same funding - but earmarked now for all art forms - newly including fine arts, crafts and heritage! In effect, therefore, everyone got far less than before and the existing major theatre centres built by the state had to be rationalised in terms of staffing, facilities, running costs, etc.

So the lobbyists found themselves on the barricades once more.

Where has it gone wrong?

The original arguments for the state funding and the kind of state expenditure on the arts have - from the very beginning - been based on what was basically a strong but fundamentally emotive argument urging that "art" has an enormous cultural and possibly social value for the individual, for communities and for a nation. In the wake of the ostensible success of the "cultural struggle" the very powerful, but constantly debated, educational and developmental potential of theatre and theatre techniques was advanced as an argument for the defense. All these arguments are being trotted out again, but they hardly carry any weight against arguments for priority spending in the areas of employment, housing, health, education, fiscal growth, etc, do they? Can anyone actually justify looking a starving child or a dying patient in an under-equipped hospital in the eye and say: "I would rather fund a play"?

The counter argument has largely been that humankind cannot live on bread (and antibiotics) alone, but that there is a death of spirit to be guarded against as well. And this is most certainly true, this needs to be argued and fought for certainly. However, the emotive argument alone cannot counter the pragmatism and statistics of the bean-counters who hold the purse-strings. And - I would argue - it need not.

What can be done?

The fact is, if all theatre practitioners can come up with are arguments in terms of their own ideological position and own way of perceiving the world, in a language that only they understand, they are always going to struggle to be heard in the sound and fury of the economic battleground. The simple truth is that if you want someone's money, you must argue in terms that that person

can understand. And if you are not going to rob them at gunpoint, you need to have arguments that they will understand and share - or at the very least accept. Every marketing person, every financier and every confidence trickster knows this fundamental rule. So do the more independent theatre companies.

Is there a way one may sell the performing arts to government and other sponsors in this fashion? Yes, I think there is. And I do not think one need betray one's artistic principles or prostitute one's genius to do so.

There are a number of reasons why the government may fund art. Let us consider just two. What I might call "art for art's sake" funding as opposed to "art for the good of the community" funding. The two are not mutually exclusive at all, rather they may be seen as complementary. But they do draw different supporters and make different points about the nature of art. The first approach would be intended to set up facilities and set in motion procedures to create artistic geniuses who would bring renown to the country. (The oft quoted example here is the Australian film industry or our own South African "development programmes" in sport.) And the government has inherited many of these things (a wide-spread, albeit skewed, arts infrastructure, training institutions, complex but flawed funding procedures, etc.). This is, of course, where the emotive argument is most telling. The very existence of individuals such as Nadine Gordimer, Athol Fugard, Mbongeni Ngema, Miriam Makeba, Abdullah Ibrahim or William Kentridge must suggest that the country has a soul, that it is somehow to be reckoned with. So, too, the success of the Grahamstown Arts Festival and the Market Theatre. But then, is this kind of argument acceptable from a pragmatist economist's point of view? Would the activities in question and the gains to be had be considered a socio-economic priority in these times?

The other reason which may be advanced for supporting the arts would be if it could be shown that promoting the arts would bring some kind of "real" return in terms of the government's own long term social, economic and political goals. And this brings me to what has, for too long, been the forgotten or marginalised argument in our battle for existence. The argument that the arts industry is far larger, more widely and deeply entrenched in the socio-economic fabric of the country than is commonly admitted. That it, in fact, constitutes a vast, dynamic and crucial economic factor in the larger social system in South Africa. To use this argument effectively would of course require that we do our homework and truly determine what the economic real and full impact of the arts industry is. And by this I mean we need to undertake

substantial and rigorously scientific impact assessments which can provide us with "hard figures" to back up our more philosophical arguments.

The economics of the arts industry

If one considers a larger, somewhat expanded interpretation of the concept "arts industry", then there are clearly areas of it which are totally self-sufficient and highly profitable - the marketing and advertising industry to name but one, while there are others that battle constantly (such as the live theatre industry). The fact is the industry as a whole is large and widespread, while also being made up of numerous interrelated and interdependent entities. And what makes it particularly unique is the fact that there are many elements in the system which are absolutely essential to the whole, but are always dependent, unable to function independently. To take one specific example: the Breughel Theatre Company in Stellenbosch is an old and established community theatre company which has been leading a struggling existence for more than two decades. It cannot (and has never been able to) function without state, provincial and/or town intervention. So, by all counts it is an "unprofitable" exercise. Yet, every Breughel production employs 8-12 young theatre workers for two to three months. Through its productions, numerous young people from disadvantaged backgrounds have gained experience and moved on to profitable and celebrated roles on stage, radio, television and film, as well as jobs in a variety of other "performance" based disciplines. Thus, they become part of the larger industry of which the Breughel is a small but intrinsic part.

The mistake in the past has been to fragment the industry and argue for segments of it rather than for the industry as a whole. We need to alter that perspective. One way is to consider how the marketing and advertising industries - which rely heavily on the arts for their processes - function. They are - as I have mentioned - independent, dynamic and hugely profitable enterprises (particularly when compared to something like the Breughel) with an enormous influence on the economy, job creation, etc. However, a large component of the staff they utilise to achieve this have actually been trained for other artistic endeavours, by formal schools, technikons and universities, amateur and community companies, and other apprenticeships. All of it done with an (inadequate) sponsorship from the state - because the training in the arts is by its very nature individualised, hence intensive and viewed as very "expensive" by educational authorities and institutions. (In recent years, for example, three drama departments have been closed down for being too expensive, while most others have been radically scaled down.)

The thing is, drama, music and art departments train "artists" which the government feels are intended for a smallish industry which has to be sponsored to stay alive. But this is false: the training is highly transferable (more so than many other skills in fact) and the majority of those graduates actually end up in other, labour intensive but very profitable jobs - such as tourism, media, marketing and advertising. So one may well ask: Why are the tourism, media, marketing and advertising industries not paying something towards the training? They in turn may argue that they do, through their taxes - but those taxes are not earmarked, but are pooled by the state and then redistributed according to its own priorities of the particular moment, priorities which do not recognise the central role the arts may play in many of those priorities: inter alia in communication, literacy, education, health and job-creation.

Towards an impact study of the arts

So, what we need to do is to undertake a formal audit of the socio-economic impact of the arts industry in any country. This has not yet been done in any comprehensive fashion, for a very simple reason. All artists have always bought into the dominant fiction that the arts are economically insignificant, that they are a luxury and elitist activity and hence a burden on any state committed to the weal of all its people. Or alternatively - if a process of creation is lucrative or economically viable - it is viewed as being somehow tainted, commercial and thus inferior. Indeed we as artists and arts administrators, critics and academics have helped this along by splitting our forces so horribly, by our own elitist tendencies and the almost fanatic belief in the individualism of the reclusive, difficult and idiosyncratic artist, inherited from the romantic movement. (This of course is rather alien to African arts, but let us leave that for a moment.)

To illustrate the principle I am striving for, let us start by considering a rather obvious example from the fine arts. If we say the state must support our master painters (i.e. our local "Leonardo", "Michaelangelo" or "Picasso"), merely because they are geniuses and are therefore contributing significantly to the cultural and spiritual value of the nation and the world, it may sound elitist and excessive (who is to choose?). (Of course there are countries - such as Japan - that actually do this through their system of "Living Treasures", and that is wonderful!). But if you think about it, every Picasso "masterpiece" actually represents the culminating point of a whole series of production processes, of an industry, made up of numerous smaller processes, involving many hands, a range of creative insight and physical endeavour, and a

measurable quantity of material. Producing one work could have involved the participation of inter alia farmers (producing the materials to produce canvasses, brushes, palettes, easels, frames, etc), canvas makers, carpenters making easels, etc, paint and pigment makers, framers, art teachers, art dealers, gallery owners, copiers, cleaners, setters, printers, bookbinders, photographers, critics, arts editors, and so on. Thus every Picasso painting may imply the active (direct and indirect) engagement of a substantial workforce of people - even if only for a fraction of their time - in the production and sale of the final work and the many subsidiary activities that result (prints, books, etc). If one looks at it in this way, then the argument that art is irrelevant to society becomes far less persuasive. For the industry does not only maintain one Picasso but many, since every Picasso would also inspire a large number of others to paint (from dabblers and rank amateurs, street artists and trainee artists to commercial artists, designers and highly professional master artists, and the odd genius) and would thus further activate and maintain the sustaining of the "arts industry" - which in its turn would generate much revenue and job opportunities. In an ideal world this could already assure a more healthy economy and ultimately a satisfied government.

Thus far we have only looked at painters in the formal "art" world. But there is far more to art than that: There are a range of other, related industries that utilise the skills of trained painters and designers. Illustration, industrial design, architecture, photography, publication, marketing, television, film, the internet, etc. are all heavily dependent on visual design and communication for what they do: hence the need for the trained artist as worker. And these are highly profitable enterprises, unthinkable without the input of the "useless" master artist. Thus the artist has a specific and significant and measurable economic impact, besides his/her artistic function in the particular industry. But it has not, to my knowledge, actually been measured yet.

When we move back to my field of expertise and do the above exercise for the production of a play or a theatrical event of some kind, we find ourselves confronting an even more complex and interesting phenomenon. The art form itself is already eclectic, complex and widespread, utilising a far bigger range of basic products and processes as it creates its own "product": the "performance" or "event". Itself a mix of so many "arts" - of the word, the voice, the body-in-motion, design, sound, light, etc, all the skills utilised by the theatre practitioner - theatre also comes in a number of forms and applications in contemporary society, depending on the aims of the project, the space and "technology" utilised, and the nature of the society and audience. Theatre (or

theatre style techniques) are found in the street, on stage, radio, film, television, and in the classroom, lecture room or sales hall, and people with theatrical skills make up the workforce of virtually any industry one can think of. The possible permutations are enormous.

Now in an earlier publication (Hauptfleisch 1997), I used a transactional communications model in devising a diagram to illustrate the creative and other processes involved in making theatre (others have often done so too, often for purposes of semiotic analysis etc. - Keir Elam, Patrice Pavis, JL Styan etc. come to mind). However, here I want to assume we all know the processes of making a text and putting it on stage/film or radio. What I want to consider are the linked industries brought into play to produce the works and the equipment necessary to make a play happen, and the processes and activities required to activate it in the public mind.

I would like to do this by means of a simple diagram, which I hope will at least illustrate some of the implications of this argument.

Diagram Of Industries Involved In A Theatrical Event

MEDIUM

Tools, equipment, companies utilised	Stage play	Television	Industrial theatre	Radio
1. Paper	✔	✔	✔	✔
2. Copying	✔	✔	✔	✔
3. Paint	✔	✔	✗	✗
4. Sound equipment etc	✔	✔	✔	✔
5. Lighting	✔	✔	✔	✗
6. Computers	✔	✔	✔	✔
7. Textiles	✔	✔	✔	
8. Legal services	✔	✔	✔	✔
9. Electricity	✔	✔	✔?	✔

If we let the horizontal axis represent all the fields in which one may be said to be creating a single, one-off (theatrical) event and the vertical axis all the

materials significant to the production processes/industries involved in making just one event occur in each case, one might just get some idea of the range of human involvement in "making theatre" in one day. In the sample diagram above I have only taken four fields on the horizontal axis, and nine examples on the vertical axis, for there are myriads, of course.

Now the important thing is that if this were one event in each category happening once, we already have NINE industries involved in four fields. Consider the amount of money and labour involved? The work in the nine fields happens because of the needs of the four fields. Now multiply this by the number of hours some of these fields operate. In the case of radio and television we may think of 24 hours per day, 365 days per year per radio or television station. In the case of South African theatre for instance, there are 30 odd festivals in the country, plus hundreds of venues in all the cities and towns of the country. In the case of industrial theatre the calculation becomes almost imponderable. In all thus we have a vast field of potentially empowering industries involved in the production of a theatrical event, all implying hours of labour earning money!

Conclusion

What I have sought to show was quite simply that the arts industry in general, and even the theatre industry (in its broader sense) is being totally short-changed by government and the economic planners who determine subsidies, support systems etc. And it is something that needs to be addressed, by breaking out of our meek acceptance of our "inferior" role, and accepting the status of the arts as (part of) a significant industry, as something which has not only immense cultural and spiritual value, but also has very real economic muscle - muscle which is quite simply not flexed often enough. A thorough audit of the potential impact of the arts would, I believe, be a very good beginning.

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SOME REFLECTIONS ON THE WTO MINISTERIAL IN DOHA

9 - 13 November 2001

By Rob Davies*

The Ministerial Declaration adopted at the Doha WTO meeting from the 9 - 13 November 2001 will without doubt be of major significance for developing countries in general and South Africa in particular. The conference took place against the background of the collapse of the second Ministerial Conference in Seattle in November 1999 and also against the background of growing evidence of, and concern about the growing inequalities and inequities in the multilateral trading system administered by the WTO.

The contradiction between the rhetoric of globalisation and liberalisation and the reality of trade in products where developing countries have certain advantages has become increasingly evident in recent years. In agricultural trade for example, subsidies on agricultural products produced in developed countries are now estimated to be worth more than two thirds of the Gross National Product of Africa and instead of declining in importance these subsidies have been growing in significance. The UNCTAD estimated in 1999 that tariff peaks, tariff escalations and non-tariff barriers on manufactured products where developing countries have a comparative advantage, or could acquire one, were costing over US$ 700 billion a year, which is more than the total foreign direct investment which was going to the developing world.

The Doha Ministerial met to consider a declaration which will shape a process of multilateral trade negotiations over a period to 2005. The outcome of these negotiations will clearly be of critical importance. Developing countries clearly came to the Doha meeting better prepared, more coherent in their argumentation and in their ability to struggle for positions than they had been either at the Seattle meeting and most definitely than they were during the Uruguay Round processes which gave rise to the WTO.

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The draft declaration presented for discussion at Doha had been prepared as the outcome of months of meetings in Geneva, where demands from the various delegations had been put on a number of the key issues. For developing countries one of the most critical questions was agricultural trade, in particular removing barriers to access for agricultural products in developed countries markets, whilst still allowing room for developing countries in particular to adopt policies which would allow for the development and sustaining of agricultural sectors in their own economies. On non-agricultural tariffs, the key concern of developing countries was to avoid the situation in which the demands for tariff reductions on industrial products would cause further hardship and problems in developing countries while at the same time enabling developing countries to achieve access to developed countries markets in products where they were competitive or could become so.

The conference also met to endorse decisions on a series of so-called implementation issues, mostly raised by developing countries which were to do with the interpretation of existing agreements and in some cases required small textual changes to the existing agreements. A work plan also needed to be agreed to address further implementation issues which had not yet been agreed by the time of Doha. These were, essentially, the main demands of developing countries.

The WTO is, as its officials describe it, a member-driven organisation in which the negotiating process is a smorgesbord where members put something into the pot, and also take something out of the pot.

Thus, at the same time as developing countries were putting in demands of the sort described above, developed countries were also putting demands for issues which they considered ought to be taken up in a future Round. These were the so-called, new issues or Singapore issues, which had been identified by the OECD at the Ministerial Conference in Singapore in 1997. They included a number of new issues which had not so far been subject to the multilateral trading systems regulation: among them a multilateral investment agreement, competition policy, transparency in government procurement, trade facilitation, electronic commerce and an issue inserted very much at the insistence of the EU, the link between the trade and environment. Developed countries came to Doha insisting that all these issues should form part of the negotiating agenda. In addition, the conference considered a separate draft declaration on the issue of intellectual property, TRIPS, and medicines.

The declaration which emerged from the Doha Conference modified the draft which had been prepared as a result of the processes in Geneva in only a limited way. The assessment of many commentators is that the Doha declaration was a significant improvement on the text that that was emerging from Seattle and does hold out the possibility of some reforms in the trading system, potentially to the benefit to developing countries. The section on agricultural trade talks about the necessity for addressing some of the distortions in world agricultural markets which are created by high tariffs and subsidies in developed economies. It commits to a negotiation process aimed at a substantial improvement in market access particularly for developing countries and at reductions with a view to the phasing out of export subsidies.

There was also agreement that non-agricultural tariff negotiations should include a focus on, among other things, the elimination of tariff peaks, tariff escalations and non-tariff barriers in particular on products of export interest to developing countries. The document as a whole identifies the need for the principles of special and differential treatment in favour of least developed countries to guide the negotiating process as well as for capacity building to assist developing countries in general, and least developed countries in particular.

The separate declaration on TRIPS and public health stresses that the TRIPS, (the Trade Related Intellectual Property Rights, TRIPS agreement), should not in any way impede the adoption of policies by countries to deal with health emergencies and other major public health problems. It allows developing countries to adopt a range of measures, when they themselves consider that they are facing a health emergency or other serious health problem, particularly those resulting from HIV/AIDS, tuberculosis, malaria and other epidemics. The declaration also says that each member country has the right to determine what constitutes an emergency or serious health challenge. Finally, some of the implementation issues amount to interpretations of existing provisions and rules in ways which would be of some significance and benefit to developing countries.

At the same time, the main declaration includes an agreement to reach a decision at the next Ministerial, which will be held in two years time, on the so-called new issues. These include, a multilateral investment agreement, a multilateral competition agreement, which many developing countries were very reluctant to have on the agenda fearing that these will require implementation of policies which will be of benefit to foreign investors but not necessarily to countries which are trying to adopt their own policies to attract and control investment. The Doha declaration was in fact extraordinarily vague

on what was agreed on. At the last moment it was decided that the text itself would include what appears to be a pre-commitment that there will be negotiations on these issues, the modalities of which will be decided at the Ministerial conference in two years time, but the Chairperson's interpretation was that the decision on whether to have such negotiations would take place would be at the next Ministerial.

While the Doha declaration does hold out the prospect of important reforms to the benefit of developing countries, it is important to recognise that the demands of developing countries to rebalance a fundamentally inequitable global trading system were not absolutely hegemonic in shaping the process. Many of the sections of the Doha text most important for developing countries include a significant amount of "wiggle" room and there are major ambiguities which will be of considerable significance in the future negotiation process. For example, the undertaking that there should be a reduction with a view to phasing out all forms of export subsidies in agricultural trade is balanced with a reference to this being without any prejudice to the final outcome, meaning that it is not absolutely certain that the elimination of export subsidies will be the outcome. In any case the Europe Union, which is one of the important users of these subsidies, is preparing for a shift from export subsidies to income support for farmers, which a number of analysts in Europe have argued, could also have very significant effects on the European agricultural market. This will not necessarily be to the benefit of developing countries, basically preserving, in a less overt form, some of the mechanisms which have restricted access to those markets by a developing country's agricultural products, and which have also meant that European agricultural exports have dominated a number of third country markets where developing countries are also important.

The section on non-agricultural market assess, which is in many ways the bread and butter of the work of the WTO, says a number of things which could be interpreted in different ways. It says that the Ministers agree to negotiations which will aim, by modalities to be agreed, to reduce or, as appropriate, eliminate tariffs. This means that the possibility of non-agricultural tariff negotiations focusing on a general reduction in tariffs as distinct from a focused reduction of barriers to products of developing countries, does exist and can be interpreted as being called for in the text. The reference to reduction and elimination of tariff peaks etc. on products of export interest to developing countries is also coupled with a phrase, which was inserted at the insistence of the United States, referring to the reduction or elimination of

"high tariffs", which could be used and interpreted as applying not just to access to developed country markets but also to sensitive products in developing country markets. There are a number of other phrases in the section which could also be interpreted in a variety of different ways.

In short, the Doha Declaration needs to be recognised, as all in fact agree, as the start rather than the conclusion of a process. In my own assessment, it is a document that developing countries can utilise to press for important reforms in the global trading system, but which is also subject to other interpretations which will be areas of contestation in the process that lies ahead.

Besides, the experience which we in South Africa had in, for example, negotiating the South Africa/European Trade Development and Co-operation Agreement has taught us that we cannot rely on winning the battle for principles and then expect these principles to be automatically translated into the detailed outcome of negotiations. Many of the biggest 'devils' that we confront in trade negotiations are in the details. All of this suggests that what is now of critical importance is the planning of the strategy for the negotiations that lie ahead which will be shaped by the Doha Ministerial Declaration. There are at least two elements of this that we need to consider.

First we will need to continue to find opportunities to put the argument that the main context of the next phase of restructuring the global trading system must involve significant adjustment by developed economies to accommodate the needs of the developing countries. We need to give the maximal interpretation of the Doha Declaration in this regard. In other words, we must strengthen the case that the main requirements and main content of the Round which Doha launches must be a process of re-balancing the global trading system in favour of developing countries.

Secondly, we need to find ways to enhance positions of developing countries in the detailed negotiating processes that will begin in 2002. We need to find ways in which we become and remain informed of what's going on in the detailed negotiating processes, and in which areas where difficulties are encountered, where blockages occur, we are able to mobilise a climate of opinion that pushes these processes forward in ways which are of benefit to developing countries.

THE CURRENT INTERNATIONAL SITUATION

By Fidel Castro

Televised presentation by Fidel Castro, President of the Republic of Cuba, on the present international situation, the economic and world crisis and its impact on Cuba. Havana, November 2, 2001

At the opening of the Social Workers Training School in Santiago de Cuba on October 24, I said that in the coming days I would speak about the international economic situation and how it could affect our country, which was carrying out an unprecedented social development programme as it gradually recovered from the special period. I do not want to put that discussion off any longer.

To characterise the current situation, one could say, by way of a very brief summary, that in the mid-1990s, when globalisation was extending around the planet, the United States, as the absolute masters of the international financial institutions and through its immense political, military and technological strength, achieved the most spectacular accumulation of wealth and power ever seen in history.

But the world and capitalist society were entering into an entirely new phase. Only an insignificant part of economic operations were related to world production and trade. Every day $3 trillion were involved in speculative operations including currencies and stocks. Stock prices on US exchanges were rising like foam, often with no relation whatsoever to the actual profits and revenues of companies. A number of myths were created: there would never be another crisis; the system could regulate itself, because it had created the mechanisms needed to advance and grow unimpeded. The creation of purely imaginary wealth reached such an extent that there were cases of stocks whose value increased 800 times in a period of only eight years, with an initial investment of $ 1000. It was like an enormous balloon that could inflate to infinity.

As this virtual wealth was created it was invested, spent and wasted. Historical experience was completely ignored. The world's population had quadrupled in only 100 years. There were billions of human beings who neither participated in, nor enjoyed, this wealth in any way whatsoever. They supplied raw materials and cheap labour, but did not consume and could

not be consumers. They did not constitute a market, nor the almost infinite sea fed by the immense river of products that flowed, in the midst of fierce competition, from factories that were ever more productive and created ever fewer jobs, based in a privileged and highly limited group of industrialised countries.

An elementary analysis was sufficient to comprehend that this situation was unsustainable.

Nobody seemed to realise that any apparently insignificant occurrence in the economy of one region of the world could shake the entire structure of the world economy.

The architects, specialists and administrators of the new international economic order, economists and politicians, look on as their fantasy falls to pieces, yet they barely understand that they have lost control of events. Other forces are in control now. On the one hand, those of the large and increasingly powerful and independent transnationals and, on the other, the stubborn realities are waiting for the world to truly change.

In July of 1997, the first major crisis of the globalised neo-liberal world erupts. The tigers fall to pieces. Japan has still not managed to recover, and the world continues to suffer the consequences.

In August of 1998 comes the so-called Russian crisis. Despite this country's insignificant contribution to the worldwide gross domestic product, barely 2%, the stock markets of the United States were badly shaken, dropping by hundreds of points in a matter of hours.

In January of 1999, only five months later, the Brazilian crisis breaks out.

An all-out joint effort by the G-7, IMF and World Bank was needed to prevent the crisis from spreading throughout South America and dealing a devastating blow to the US stock markets.

This time, the inevitable has happened: the crisis began in the United States, almost imperceptibly at first. Beginning in mid-2000, the first symptoms began to be observed, with a sustained decrease in the rate of industrial production.

In March of that year, the so-called high-tech NASDAQ index had already begun to drop.

At the same time, the trade deficit showed an enormous growth, from $264.9 billion in 1999 to $368.4 billion in 2000.

In the second quarter of the year 2000, the gross domestic product registered growth of 5.7%; in the third quarter, it grew by only 1.3%.

Industrial sector production began to fall in October of 2000.

Nevertheless, at the end of the year 2000, opinions on the prospects and forecasts for the world economy were still rather optimistic. But reality soon reared its ugly head.

Since the beginning of 2001, the IMF, the World Bank, the Organisation for Economic Cooperation and Development (OECD) and the European Commission, along with private institutions, have been obliged to downwardly adjust their growth predictions in the various regions of the world for 2001.

Latin America

In August, the Economic Commission for Latin America and the Caribbean (ECLAC) reported that the region's economy would grow by only 2% in 2001, a mere half of the growth registered the previous year (4%). In so doing, it retracted its prior prediction, made in May, forecasting a GDP growth of between 2.7% and 3%.

According to ECLAC, this is the result of the worldwide economic weakening and instability in a number of the region's key countries: Peru and Uruguay will experience no growth; Brazil has been affected by a scarcity of fuel supplies, which has hit its productive activity, and by an almost 40% devaluation of its currency this year; and Chile's economic reactivation has come to a halt. In the case of Mexico, a feeble economic growth of 0.13% is predicted for this year, and 1.74% for 2002. The government had originally forecast 4.5% growth in the gross domestic product for 2001, but it has downscaled that figure a number of times due to the slowdown in the world economy, and particularly that of the United States.

ECLAC estimates that unemployment in the region will reach at least 8.5%.

There are people who calmly speak today about the "world economic crisis caused by the terrorist attacks that took place in the United States on

September 11 and by the war against Afghanistan initiated on October 7." Such statements are completely baseless. What I have just outlined irrefutably proves this. The crisis was already breaking out, uncontrollably.

Every week I receive a bulletin with the most important economic news gathered from the most prestigious and reliable public sources of information, or statements made by specialists and political leaders. I remember in particular the bulletin I received on September 8, 2001, exactly three days before the terrible tragedy in New York. It had been many years since I had read so much bad news about the prospects for the international economy in just one bulletin.

As can be seen, the economic crisis is not a consequence of the September 11 attacks and the war against Afghanistan. Such claims could only be made out of total ignorance or an attempt to hide the real cause. The crisis is a consequence of the resounding and irreversible failure of an economic and political conception imposed on the world: neo-liberalism and neo-liberal globalisation.

The terrorist attacks and the war did not give rise to the crisis, but they have considerably aggravated it. What had already been rapidly advancing was abruptly and untimely boosted even further. Humanity must now confront three extremely serious problems, which feed off of one another: terrorism, the war and the economic crisis.

The economic crisis also means the aggravation of major problems that are far from being solved: poverty, hunger and disease, which kill tens of millions of people in the world every year; illiteracy, lack of education, unemployment, and the exploitation of millions of children through child labour and prostitution; the trafficking and consumption of drugs, which mobilises and absorbs hundreds of billions of dollars; money laundering; the lack of drinking water; the scarcity of housing, hospitals, communications, schools and educational facilities. The crucial rights of all human beings are affected.

The crisis will have an especially negative impact on the struggle for sustainable development, the preservation of the environment and the protection of nature from the merciless destruction to which it is being subjected, and which is causing the poisoning of the waters and the atmosphere, the destruction of the ozone layer, deforestation, desertification, and the extinction of animals and plants. How could this possibly not be taken into the slightest account?

There are nations and even entire regions on some continents that could be annihilated if terrifying plagues like AIDS are not urgently combated and defeated by humankind; and if terrorism, war and the economic crisis are not resolutely confronted. Now is the time when co-operation among all countries is needed more than ever before.

Although it is essential to return to this theme before I finish my presentation, I would first like to explain how the current international situation and the economic crisis are influencing and will undoubtedly continue to influence our own country.

The economic crisis had already been affecting some of our main sources of convertible currency.

The most direct immediate consequences: the price of sugar on the world market has fallen from 9 to 6.53 cents a pound; the price of nickel, another export line in which production had increased alongside a reduction in costs and fuel expenditures, dropped from $8.64 to $4.715 a ton; sales of tobacco, another of our most important export products, are declining in all markets. The crisis has also limited other exports of goods and services that were being developed.

Direct consequences of the terrorist attacks and the war unleashed

Despite the world economic crisis that was developing and the rise in airfares resulting from increased fuel costs, we had received a total of 1 304 597 tourists as of August 31 this year. This represented growth of 7.8% in comparison with the same period last year, when 1 200 076 tourists were received.

The number of visitors staying in tourism industry facilities grew by 11.3%.

In September, the total number of visitors decreased, in only 20 days, by 9.9% in comparison with the same month last year. It is estimated that the decrease for the month of October will reach 14%. Varadero and the city of Havana, the country's two most important tourist destinations, are also the most affected.

The goal of receiving a total of two million tourists was feasible, and the first million was reached three weeks earlier than last year, during the first quarter. Now the growth achieved will likely be only 3% to 6%.

The blow dealt to the Caribbean after September 11 was even more severe. They depended more on tourism from the United States.

There have been other negative effects resulting from the causes mentioned above and from other causes aside from terrorism and the war:

The possibility of obtaining credits has been reduced due to the reduction in our convertible currency income.

We have financial obligations that must be met despite the reduction in convertible currency income.

Foreign exchange bureaus

Cuba's foreign exchange bureaus (known by the acronym CADECA) felt an immediate effect as soon as the bombing started. To allow for a fuller understanding, I need to explain that during the most difficult moments of the special period, the depreciation of our currency, the Cuban peso, led the exchange rate to 150 pesos to the dollar. The measures adopted and the creation of the CADECAs improved the rate to 20 pesos to the dollar. This brought major benefits to the population: their money rose in value, and all the people were given access to stores operating in convertible currency.

Over the course of more than five years, our country achieved an unprecedented feat, unique in the world: despite the blockade and the economic war, it managed to maintain a stable exchange rate for its currency, with minor fluctuations in one direction or the other. The bank always obtained a small difference in its favour, because the CADECAs met with a greater supply of dollars for pesos than the supply of pesos for our convertible pesos [equivalent in value to US dollars within Cuba]. The difference obtained was devoted entirely to acquiring raw materials sold in convertible currency in order to manufacture products for sale to the population in Cuban pesos, from French bread to brand-name beer, along with many other products. The national currency funds thus recovered served in turn to maintain the stability of the peso-dollar exchange rate.

Then the situation was reversed: the supply of dollars decreased and the demand for convertible pesos increased. For 20 consecutive days, with the exception of three, the bank supplied more dollars than it received. The adverse balance reached almost $4 million.

The CADECAs operate on the principle of supply and demand; it can be no other way. As a result, the peso began to decline in value. At one point, the exchange rate reached 28 pesos to the convertible peso in a number of provinces. Three days ago it stabilised at 26 pesos to the convertible peso; convertible pesos are equivalent in value to US dollars and can be immediately changed into US dollars upon request.

The peso, in these circumstances, lost 18.18% of its value. This is a situation that must be monitored closely. At the moment, the country should not take any risks with its convertible currency resources. It is our duty to inform our people, so that they may adopt the decisions they deem most advisable under any given circumstances. At times when the situation calls for the devaluation of the peso, they should not let themselves be influenced by the advice of speculators or by fear.

It should not be forgotten that the Revolution, in such difficult conditions as those prevailing in 1994, succeeded in bringing about the decrease in the exchange rate from 150 pesos to the dollar to 20 to the dollar, and it kept this rate relatively stable for many years. The population has the possibility of making term deposits in pesos, which pay an interest rate of 7.5% annually, triple the interest paid on accounts in dollars, and 50% more than the interest paid on convertible pesos.

In the end, the Revolution will win this battle against the consequences of the international economic crisis as well, no matter how serious that crisis becomes, and its currency will eventually increase in value once again.

I noted earlier that before concluding, I would return to the issue of terrorism, the war and the international economic crisis.

Although we have made our stance known, I think it would be worthwhile to recall that on September 11, just hours after the events, and having expressed our total condemnation of the brutal attack and our sincere and selfless solidarity with the people of the United States - since we never asked for nor expected anything in return - we expressed a conviction that we continue to hold today, with more strength and certainty than ever: "None of the present problems of the world can be solved by force. [...] The international community should build a world conscience against terrorism. [...] Only the intelligent policy of seeking strength through consensus and the international public opinion can decidedly uproot this problem [...] this unimaginable event should

serve to launch an international struggle against terrorism. [...] The world cannot be saved unless a path of international peace and cooperation is pursued."

A week later, in San Antonio de los Baños, I declared on behalf of our people, "Whatever happens (that is to say, whether or not there is a war), the territory of Cuba will never be used for terrorist actions against the American people."

I added something else: "We will do everything within our reach to prevent such actions against that people. Today we are expressing our solidarity while urging to peace and calmness. One day they will admit we were right."

A week later, on September 29, at the Revolutionary Mass Rally held in Ciego de Avila, I continued to stress our points of view: "Nevertheless, no one should be misled into thinking that the peoples of the world, and a number of honest political leaders, will not react as soon as the war actions become a reality and their horrific images start to be seen. These will then take the place of the sad and shocking images of the events in New York at a time when forgetting them would bring irreparable damage on the spirit of solidarity with the American people that is today a primary element towards the eradication of terrorism, without the need to resort to a war of unpredictable consequences and avoiding the death of an incalculable number of innocents.

"The first victims can already be seen. They are the millions trying to escape the war and the dying children with ghastly appearance whose images will move the world to pity without anyone being able to prevent their dissemination."

The events that have been taking place make it increasingly clear how right we were.

An editorial in Granma, the official newspaper of our Communist Party, published on October 8, just hours after the war had been unleashed, stated: "It is not a war against terrorism; [...] it is a war in favour of terrorism, since the military operations will make it more complicated and difficult to eradicate it. It is like pouring oil on the flame.

"From now on, there will be a real avalanche of news about bombs, missiles, air strikes, the advance of armoured vehicles with troops of ethnic groups allied with the invaders, the dropping of paratroops or the ground advance of elite forces of the attacking countries. Rather soon, there will be news about occupied cities, the capital included, and TV images of whatever censure permits or escapes control. The fight will be against the people of that country

and not against the terrorists. There are no battalions or armies of terrorists. This is a sinister concept and an insidious method of struggle against a ghost."

After 26 days of relentless bombing, those who have been following events from day to day can see that what has happened up until now is exactly as we predicted.

The war began inexorably. We knew that it was extremely unlikely, practically impossible, that it would not happen. Nevertheless, this has not led us, either before or after, to become discouraged or renounce our stance.

We insisted that it was necessary to fight against terrorism and against the war. A spirit of revenge or hatred against America never led us. It was with sadness that I meditated on the mistake that, in my view, was being made but I never uttered an insult or a personal offense. I have often said to those involved in this battle of ideas that there is no need to personally offend anyone. I rather enumerate facts, avoid adjectives, and analyse with cool head and wage arguments. That preserves our moral authority and prevents anyone from questioning the strength and sincerity of our position.

Presently, I am afraid that if the possibility existed to defeat terrorism without a war, through cooperation and with the unanimous support of all the international community leading to truly efficient measures and to the building of a strong moral conscience against terrorism, that possibility tends to fade away with every passing day.

The worst would be to come to a point when it would no longer be possible to find a solution that way because I see it ever more clearly that it is absurd and impossible to try to resolve this through war. I try to imagine what was going through the minds of the American political and military strategists; maybe they thought that a colossal deployment of forces would crush the will of the Taliban; perhaps they were hopeful that an initial devastating blow would attain that objective.

Everybody knows the estimates made by NATO during the war against Yugoslavia. The idea was that the objectives would be accomplished in 5 days, but almost 80 days passed and it had not happened. It is also a known fact that despite the extraordinary display of technology and means, the Serbian army was practically intact. The envoys of Russia and Finland had to weigh heavily to "persuade" the adversary through diplomatic channels when

the time had come to fight on the ground, something that the members of the coalition were not particularly fond of.

I do not share the view that the United States' main pursuit in Afghanistan was oil. I rather see it as part of a geo-strategic concept. No one would make such a mistake simply to go after oil, least of all a country with access to any oil in the world, including all the Russian oil and gas it wishes. It would be sufficient for the US to invest, to buy and to pay. Based on its privileges, the United States can even purchase it by minting reserve bonds on a 30 years maturity span. That is how, throughout more than 80 years, it has bought products and services accounting for over $6.6 trillion.

Military actions in Afghanistan are fraught with dangers. That is an extremely troubled area where two large countries have fought several wars. There are profound national and religious antagonisms between them. The population of the disputed territory is mostly Islamic. As the tempers grow frail, a war might break out; and both countries have nuclear capability. That risk is as serious as the destabilisation of the Pakistani government by the war. That government is being placed in a highly complicated position. The Taliban emerged there, and they share the same Pashtun ethnia with an undetermined number of Pakistanis, in fact, no less than 10 million; and I have chosen the most conservative figure among those that have been mentioned. They also share with fanatic passion the same religious beliefs.

The US military are usually well versed in their trade. I have met some when, after retirement, they have visited Cuba as scholars. They write books, tell stories and make political analysis. I was then not surprised by the information released by The New Yorker magazine of October 29 in the sense that there was a contingency plan to seize the Pakistani nuclear warheads, in case a radical group took over the government of that country.

It was absolutely impossible for the American strategists to overlook that substantial risk. Every bomb dropped on Afghanistan, every picture of dead children or people dying or suffering from terrible wounds, tend to compound that risk. What is hard to imagine is the reaction of those responsible for protecting those weapons, to a plan that is by now of public domain as much as Chronicle of a death foretold by Gabriel García Marquez.

I am not aware of something the US Special Services should know only too well, that is, where and how those nuclear warheads are kept and the way in

which they are protected. I try to imagine - and it is not easy - how such an action could be conducted by elite troops. Perhaps, one day someone might tell how it could be done. But, still, I find it hard to imagine the political scenario in the aftermath of such an action when the fight would be against over 100 million additional Muslims. The US government has denied the existence of such contingency plan. It was to be expected. It could not do otherwise.

The most logical question that crosses my mind is whether the heads of governments and statesmen who are friends of the United States and have a longstanding political and practical experience did not see these potential dangers, and why they did not warn the United States and tried to persuade it. Obviously, America's friends fear it but do not appreciate it.

It is always difficult to try to guess when it comes to these issues. But, there is something of which I am absolutely certain: it would be sufficient if 20 000 or 30 000 men used clever methods of irregular warfare, the same that the United States wants to use there, and that struggle could last 20 years. It is completely impossible to subdue the Afghan adversary in an irregular warfare on that country's ground with bombs and missiles, whatever the calibre and the power of these weapons.

They have already been through the hardest psychological moments. They have lost everything: family, housing, and properties. They have absolutely nothing else they can lose. Nothing seems to indicate that they will surrender their weapons, even if their most notable leaders were killed. The use of tactical weapons, which some have suggested, would have the effect of multiplying by one hundred that mistake and with it unbearable criticism and universal isolation. Therefore, I have never believed that the leaders of that country have seriously considered such tactics, not even when they were most enraged.

These are simply my thoughts that I am expressing to you. I think the way to show solidarity with the American people that lost thousands of innocent lives, including those of children, youths and elders, men and women to the outrageous attack, is by frankly speaking out our minds. The sacrifice of those lives should not be in vain, but rather it should be useful to save many lives, to prove that thinking and conscience can be stronger than terror and death.

We are not suggesting that any crime committed on Earth should be left unpunished, I simply do not have elements of judgement to accuse anyone in particular. But, if the culprits were those that the US government is trying to

punish and remove, there is no doubt that the way in which they are doing it will lead to the creation of altars where the alleged murderers will be worshiped as saints by millions of men and women.

It would be better to build an enormous altar to Peace where Humankind can pay homage to all the innocent victims of blind terror and violence, be it an American or an Afghan child. This is said by somebody who considers himself an adversary of the United States' policies but not an enemy of that country, one who believes to have an idea of human history, psychology and justice.

Having come to this point there is only one more issue left to discuss.

What is happening with the anthrax is absolutely incomprehensible. Real and sincere panic has been created. The stocks of medications to fight that bacterium are being depleted. Many people are buying gas masks and other devices, some of which cost thousands of dollars.

Extravagant behaviour can cause more damage than the disease. When there is an outbreak of any disease, whatever the cause, it is essential to warn the people and to provide information on the illness and the measures that should be taken to prevent it, diagnose it and fight it. Diseases are carried from one country to another in natural ways, that is, through people, animals, plants, food, insects, commercial products and a thousand other ways, without the need for anyone to produce them in laboratories. That is how it has been historically. That is the reason for so many public-health regulations.

The chaos and the psychological reaction to anthrax have turned the American society into a hostage of those who want to hurt it, knowing beforehand that they will sow terror. On numerous occasions our country has had to face up to new diseases affecting people, plantations and herds, many of them deliberately introduced. No wonder our country has graduated 67 128 medical doctors and thousands of technicians in plant and animal health. Our people know what should be immediately done in such cases.

No other country in the world compares with the United States in the number of research centres, laboratories and medications, or the capacity to produce them or purchase them, to fight that or any other disease.

In the face of real or imaginary risk, either current or future, there is no other choice but to educate the people to cope with them. This is what the Cubans have done.

The causes that gave rise to panic should be analysed. Certainly, it could not be said that the United States is not in risk of terrorist actions. However, I do not believe that under the present circumstances of generalised alertness, and the measures taken, any group inside or outside America could come up with a coordinated action, organised in every detail for a long time, synchronised and executed with such precision as that of September 11.

In my view, the main risk may lie with individual actions, or actions carried out by very few people from inside or outside America that could cause lesser or greater damage. None can be underestimated. But as important as the preventive measures that should be taken to tackle such risks, or even more important, is to psychologically disarm the potential perpetrators. And these include those who might want to do it out of political extremism, vengeance or hatred, or a significant number of people who are frustrated, unstable or deranged who might feel tempted by the spectacular or by wishes to be the main actors of well-known events. They could drive the American people mad by sending mail with or without anthrax. Everything possible should be done to put an end to panic, extravaganza and chaos, then danger will be reduced.

In Cuba we have also seen the arrival and circulation of letters and postcards with strange powders and other things. One hundred and sixteen of them were detected from 15 to 31 October. 72 came from abroad: 36 from the United States, 8 from Great Britain, 3 from Canada, 2 from the Checkia Republic, 2 from Spain, 2 from The Netherlands, 1 from Denmark, 1 from Chile and 1 from the Arab Emirates. Of these letters, 25 were addressed to me. I thank the senders for their kindness.

Our laboratory staff are becoming real experts. Thirty-one originated within the country and circulated here, several were no more than bad jokes. Five were sent from Cuba to other countries: 2 to the United States, 1 to Pakistan, 1 to Italy and 1 to Costa Rica. In eight cases, it has not been possible to determine where they have come from.

Out of the 116 letters that have been examined, except for 24 that are still under analysis, no biological agent has been found. Not one worker in our postal services, the offices in the Palace [of the Revolution] or the laboratories has been contaminated. We are all in good health. There was no sensationalism, no scandal, no alarm or panic. No one purchased gas masks or medications. I am telling you the story simply to illustrate what I said about how incomprehensible it is what has happened with the anthrax in America.

Even if a bacterium had been introduced here, there would be no panic and everybody would know what to do. But, it would certainly be very difficult for a letter to go out from Cuba to another country carrying viruses or bacteria. We are pleased to know that the two letters addressed to the United States did not leave our country, neither did the others that were supposed to get to other countries.

And thus we will co-operate with every people in the world. Our doctors and other specialists as well as our technicians, research centres and our modest experience will be available in the struggle against biological bio-terrorism and other forms of terror.

It is clear by now that America's friends fear it but do not appreciate it. Cuba is not in the least fearful of the enormous power of that nation, but it can appreciate its people.

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EMERGING ALTERNATIVES IN PALESTINE

By Edward Said*

Since it began 15 months ago, the Palestinian Intifada has had little to show for itself politically, despite the remarkable fortitude of a militarily occupied, unarmed, poorly led, and still dispossessed people that have defied the pitiless ravages of Israel's war machine. In the United States, the government and, with a handful of exceptions, the "independent" media have echoed each other in harping on Palestinian violence and terror, with no attention at all paid to the 35-year Israeli military occupation, the longest in modern history. As a result, American official condemnations of Yasser Arafat's Authority after 11 September as harbouring and even sponsoring terrorism have coldly reinforced the Sharon government's preposterous claim that Israel is the victim, the Palestinians the aggressors in the four-decade war that the Israeli army has waged against civilians, property and institutions without mercy or discrimination. The result today is that the Palestinians are locked up in 220 ghettos controlled by the army American-supplied Apache helicopters, Merkava tanks, and F-16s mow down people, houses, olive groves and fields on a daily basis; schools and universities as well as businesses and civil institutions are totally disrupted. Hundreds of innocent civilians have been killed and tens of thousands injured. Israel's assassinations of Palestinian leaders continue. Unemployment and poverty stand at about 50%. And all this while General Anthony Zinni drones on about Palestinian "violence" to the wretched Arafat, who can't even leave his office in Ramallah because he is imprisoned there by Israeli tanks, while his several tattered security forces scamper about trying to survive the destruction of their offices and barracks.

To make matters worse, the Palestinian Islamists have played into Israel's relentless propaganda mills and its ever-ready military by occasional bursts of wantonly barbaric suicide bombings that finally forced Arafat in mid-December to turn his crippled security forces against Hamas and Islamic Jihad, arresting militants, closing offices, occasionally firing at and killing demonstrators.

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Every demand that Sharon makes, Arafat hastens to fulfil, even as Sharon makes still another one, provokes an incident, or simply says - with US backing - that he is unsatisfied, and that Arafat remains an "irrelevant" terrorist (whom he sadistically forbade from attending Christmas services in Bethlehem) whose main purpose in life is to kill Jews. To this logic-defying series of brutal assaults on the Palestinians, on the man who for better or worse is their leader, and on their already humiliated national existence, Arafat's baffling response has been to keep asking for a return to negotiations, as if Sharon's transparent campaign against even the possibility of negotiations wasn't actually happening, and as if the whole idea of the Oslo peace process hadn't already evaporated. What surprises me is that, except for a small number of Israelis (most recently David Grossman), no one comes out and says openly that Palestinians are being persecuted by Israel as its natives.

A closer look at the Palestinian reality tells a somewhat more encouraging story. Recent polls have shown that between them, Arafat and his Islamist opponents (who refer to themselves unjustly as "the resistance") get somewhere between 40 and 45 % popular approval. This means that a silent majority of Palestinians is neither for the Authority's misplaced trust in Oslo (or for its lawless regime of corruption and repression) nor for Hamas's violence. Ever the resourceful tactician, Arafat has countered by delegating Dr Sari Nusseibeh, a Jerusalem notable, president of Al-Quds University, and Fatah stalwart, to make trial balloon speeches suggesting that if Israel were to be just a little nicer, the Palestinians might give up their right of return. In addition, a slew of Palestinian personalities close to the Authority (or, more accurately, whose activities have never been independent of the Authority) have signed statements and gone on tour with Israeli peace activists who are either out of power or otherwise seem ineffective as well as discredited. These dispiriting exercises are supposed to show the world that Palestinians are willing to make peace at any price, even to accommodate the military occupation. Arafat is still undefeated so far as his relentless eagerness to stay in power is concerned.

Yet at some distance from all this, a new secular nationalist current is slowly emerging. It's too soon to call this a party or a bloc, but it is now a visible group with true independence and popular status. It counts Dr Haidar Abdel-Shafi and Dr Mustafa Barghouthi (not to be confused with his distant relative, Tanzim activist Marwan Barghouthi) among its ranks, along with Ibrahim Dakkak, Ziad Abu Amr, Ahmad Harb, Ali Jarbawi, Fouad Moghrabi, Legislative Council members Rawiya Al-Shawa and Kamal Shirafi, writers Hassan Khadr and

Mahmoud Darwish, Raja Shehadeh, Rima Tarazi, Ghassan Al-Khatib, Nassir Aruri, Eliya Zureik and myself. In mid-December, a collective statement was issued that was well-covered in the Arab and European media (it went unmentioned in the US) calling for Palestinian unity and resistance and the unconditional end of Israeli military occupation, while keeping deliberately silent about returning to Oslo. We believe that negotiating an improvement in the occupation is tantamount to prolonging it. Peace can only come after the occupation ends. The declaration's boldest sections focus on the need to improve the internal Palestinian situation, above all to strengthen democracy; "rectify" the decision-making process (which is totally controlled by Arafat and his men); assert the need to restore the law's sovereignty and an independent judiciary; prevent the further misuse of public funds; and consolidate the functions of public institutions so as to give every citizen confidence in those that are expressly designed for public service. The final and most decisive demand calls for new parliamentary elections.

However else this declaration may have been read, the fact that so many prominent independents with, for the most part, functioning health, educational, professional and labour organisations as their base, have said these things was lost neither on other Palestinians (who saw it as the most trenchant critique yet of the Arafat regime) nor on the Israeli military. In addition, just as the Authority jumped to obey Sharon and Bush by rounding up the usual Islamist suspects, a non- violent International Solidarity Movement was launched by Dr Barghouthi that comprised about 550 European observers (several of them European parliament members) who flew in at their own expense. With them was a well-disciplined band of young Palestinians who, while disrupting Israeli troop and settler movement along with the Europeans, prevented rock-throwing or firing from the Palestinian side. This effectively froze out the Authority and the Islamists, and set the agenda for making Israel's occupation itself the focus of attention. All this occurred while the US was vetoing a Security Council resolution mandating an international group of unarmed observers to interpose themselves between the Israeli army and defenceless Palestinian civilians.

The first result of this was that on 3 January, after Barghouthi held a press conference with about 20 Europeans in East Jerusalem, the Israelis arrested, detained and interrogated him twice, breaking his knee with rifle butts and injuring his head, on the pretext that he was disturbing the peace and had illegally entered Jerusalem (even though he was born in it and has a medical permit to enter it). None of this of course has deterred him or his supporters

from continuing the non-violent struggle, which, I think, is certain to take control of the already too militarised Intifada, centre it nationally on ending occupation and settlements, and steer Palestinians toward statehood and peace. Israel has more to fear from someone like Barghouthi, who is a self-possessed, rational and respected Palestinian, than from the bearded Islamic radicals that Sharon loves to misrepresent as Israel's quintessential terrorist threat. All they do is to arrest him, which is typical of Sharon's bankrupt policy.

So where is the Israeli and American left that is quick to condemn "violence" while saying not a word about the disgraceful and criminal occupation itself? I would seriously suggest that they should join brave activists like Jeff Halper and Louisa Morgantini at the barricades (literal and figurative), stand side by side with this major new secular Palestinian initiative, and start protesting the Israeli military methods that are directly subsidised by tax-payers and their dearly bought silence. Having for a year wrung their collective hands and complained about the absence of a Palestinian peace movement (since when does a militarily occupied people have responsibility for a peace movement?), the alleged peaceniks who can actually influence Israel's military have a clear political duty to organise against the occupation right now, unconditionally and without unseemly demands on the already laden Palestinians.

Some of them have. Several hundred Israeli reservists have refused military duty in the occupied territories, and a whole spectrum of journalists, activists, academics and writers (including Amira Hass, Gideon Levy, David Grossman, Ilan Pappe, Dani Rabinowitz, and Uri Avnery) have kept up a steady attack on the criminal futility of Sharon's campaign against the Palestinian people. Ideally, there should be a similar chorus in the United States where, except for a tiny number of Jewish voices making public their outrage at Israel's military occupation, there is far too much complicity and drum-beating. The Israeli lobby has been temporarily successful in identifying the war against Bin Laden with Sharon's single-minded, collective assault on Arafat and his people. Unfortunately, the Arab American community is both too small and beleaguered as it tries to fend off the ever-expanding Ashcroft dragnet, racial profiling and curtailment of civil liberties here.

Most urgently needed, therefore, is co-ordination between the various secular groups who support Palestinians, a people against whose mere presence, geographical dispersion (even more than Israeli depredations) is the major obstacle. To end the occupation and all that has gone with it is a clear enough imperative. Now let us do it. And Arab intellectuals needn't feel shy about actually joining in.

AFRICA'S TRADE AND MARKET ACCESS

Paper presented by UNCTAD to the NEPAD "Work-in-progress" Review Workshop, Benoni, Republic of South Africa, 24-27 January 2002

International trade

(a) Dependence on primary commodities and export performance

As in most other parts of the developing world, the emphasis on trade liberalisation and exports in the past decade has meant an increased importance of international trade in economic activity in Africa. As a consequence, trade (merchandise exports plus imports) in Sub-Saharan Africa (SSA) as a share of GDP increased from 38% to 43% between 1988-1989 and 1999-2000. However, despite the increased trade orientation of SSA, the share of the region in world trade has shown a decline in trend consisting of 1.6% of total exports to the world and 1.9% of total imports. This represents approximately one third and one half of its share respectively 20 years ago.

The composition of African exports has continued to be dominated by primary commodities, despite some progress in moving to manufactures. The increase in the share of manufactures in African exports partly reflects the effect of declines in the prices of commodities relative to manufactures in the past two decades, as well as increases in the volume of manufactured exports. Despite the increase in the share of manufactures in African exports during the 1990s, more than 80% of the region's exports consists of oil and non-oil commodities.

(b) Competitiveness of African non-traditional exports

In order to reduce dependence on traditional commodity exports, an increased number of African countries has been moving into exports of processed goods and manufactures. However, efforts have not always been successful in improving international competitiveness in such products, in large part because of low productivity and inappropriate exchange rates.

By the late 1990s, real wage levels in manufacturing in all countries, with the exception of Egypt, Mauritius and RSA, were lower than the levels reached in 1980, and for most of them the cumulative erosion in real wages was within a range of 25-45%. Wage suppression of such dimensions to promote exports generated not

only social costs, but also had adverse effects on longer-term productivity growth.

Investment and productivity have been further undermined by exchange rate misalignments and instability. There have been frequent and large-scale adjustments in nominal exchange rates in order to correct real appreciations.

The result is that the long period of stagnation in investment in Africa has taken its toll on industrial productivity and undermined sustained improvement in the competitiveness of non-traditional exports. Another adverse development has been the impact of capital account liberalisation on exchange rates. Corrections to low productivity and currency appreciations have often been sought through wage suppression without bringing sustained improvements in competitiveness. It appears that the social and economic limits to neutralising these adverse factors through real wage erosion have been reached in most African countries. Establishing competitiveness of non-traditional exports would depend very much on investment and productivity growth, combined by a judicious management of exchange rates through regulation and control of destabilising capital flows.

Terms of trade

(a) Overall trends and effects

Africa enjoyed an upturn in its terms of trade during the commodity price booms of the 1970s, but the trend from the early 1980s has been downward. This is true not only for the region as a whole but also for various sub-regions including SSA and North Africa. Indeed the downturn has been sharper for the latter region in large part because of sharp declines in oil prices in nominal as well as real terms. The levels of terms of trade at the end of the 1990s were 24% and 21% below those attained in the early 1970s for North Africa and SSA respectively.

The secular decline in African terms of trade is an important reason for the marginalisation of the region in world trade. Indeed, a significant part of the decline in the share of SSA in world exports in the past two decades can be explained by declines in the prices of African exports relative to those of the rest of the world. It can be estimated that, if the terms of trade of SSA had stayed at the level of 1980, its share in world exports today would have been almost twice as high.

A recent World Bank study has estimated that between 1970 and 1997, cumulative terms of trade losses for non-oil-exporting countries in SSA amounted to 119% of the regional GDP in 1997 and 51% and 68% of the

cumulative net resource flows and net resource transfers to the region respectively. If these numbers are combined with leakages from capital inflows into outflows and accumulation of reserves (i.e. the offsetting financial transactions noted above), it turns out that in the past two decades SSA has not received any net transfer of real resources from the rest of the world. It has been estimated that for each dollar of net capital inflow to SSA from the rest of the world, some 25 cents went back as net interest payments and profit remittances abroad, more than 30 cents leaked into capital outflows and reserve build-up, while 51 cents made up for terms of trade losses. These figures indeed imply a net transfer of real resources from SSA to the rest of the world.

Resource losses due to terms of trade declines have certainly been a major factor in the poor economic performance of the region in the past two decades. If such resources had been available for domestic uses and invested productively, African growth during the past two decades could have been much faster and its current level of income much greater. A simple simulation on "unchanged terms of trade" counterfactual carried out by the UNCTAD secretariat based on the World Bank's estimates of cumulative terms of trade losses suggests that the addition of such resources would have raised the investment ratio by nearly 6 percentage points per annum in non-oil-exporting countries in Africa and added to annual growth by 1.4% per annum. This would give a per capita GDP of $478 for 1997 instead of the actual level of $323. In other words, if non-oil exporters in Africa had not suffered from continued terms of trade losses in the past two decades, the current level of per capita income would have been higher by as much as 50%.

(b) Primary commodities

A major factor behind the downward trend in the African terms of trade is the decline of prices of primary commodities relative to manufactures. At the beginning of the new millennium, the prices of major categories of non-oil commodities relative to manufactures were lower by between one-third and two-thirds compared to prices prevailing three decades earlier.

Problems due to the deterioration in terms of trade for commodity-dependent SSA countries are thus aggravated by extreme fluctuations in real export prices. As put by a recent IMF/World Bank document, "sub-Saharan exports experienced roughly twice the volatility in terms of trade that East Asia's exports did in the 1970s, 1980s and 1990s, and nearly four times the volatility... that the industrial countries experienced." No doubt such volatility not only leads to serious difficulties for macroeconomic management but also discourages investment by creating uncertainties regarding the future course of these economies.

(c) Manufactures

Recent empirical research suggests that the expansion of manufacturing exports from developing countries has also been associated with a downward trend in their terms of trade. Such a trend is much more pronounced with respect to exports of labour-intensive manufactures than skill- and technology-intensive products. This poses an additional problem for Africa where manufactured exports have little technology content.

This is bad news for African countries which are struggling to overcome their dependence on primary commodities by gradually moving into exports of manufactures, particularly since the foregoing research suggests that the rate of deterioration of manufacturing terms of trade is strongly associated with the general level of scientific and technological development of each country group. This fallacy of composition problem (that is, rising export volumes being associated with sharp falls in export prices) threatens most developing countries concentrating on labour- and resource-intensive exports, and is aggravated by increased competition among these countries as well as continued protectionism in the major industrial countries in markets for such products. But, given its level of development, SSA is even more exposed to this threat than many other developing regions.

Market access and key international trade policy issues for Africa

(a) Market access

Some progress has recently been made towards improving market access conditions for African countries and the Least Developed Countries (LDCs), the majority of which are African. These include the "Everything but Arms" (EBA) initiative of the European Union launched in March 2001 and the "Africa Growth and Opportunity Act" (AGOA) authorised by the United States in May 2000. While these initiatives will no doubt improve market access conditions, their effectiveness will depend on ensuring the security of the preferential treatment granted, widening the product coverage, designing a realistic and simplified rules of origin requirements, making sure that the duty free access is not frustrated by non-tariff measures and finally, generating new trade opportunities for LDCs/ African countries without restricting market access of other developing countries. Recent pronouncements by US Congressional authorities with regard to future legislation for an AGOA II is a welcome development.

A study recently conducted by UNCTAD and the Commonwealth Secretariat entitled *Duty and Quota Free Market Access for LDCs: An Analysis of Quad Initiatives* concludes that if the Everything-But-Arms (EBA) initiative were to be implemented by the Quad countries, i.e., EU, USA, Japan and Canada, the benefits from duty- and quota-free market access increase more than proportionally. Overall, welfare gains are ten times higher compared with only the EU as the donor country, all beneficiary countries gain notably more, and countries like Bangladesh and the rest of sub-Saharan Africa enjoy disproportionately higher gains. Again, the gains to individual countries are mostly due to improved terms of trade, with the exception of Bangladesh, for which allocative gains are prevailing. In this case, in addition to rice and sugar, new key sectors can be identified: wearing apparel, other food and dairy products. Increased export flows from some LDCs are still mainly directed to the EU under this scenario. For other beneficiary countries, however, the rise in exports is basically targeted to the United States market (Bangladesh), for other (rest of sub-Saharan Africa) to Japan. Liberalisation from all Quad countries will entail more than proportional gains compared with EBA because this will allow for a much better exploitation of the different comparative advantages of different countries. Some Quad countries are relatively more protected in agriculture and food products (the EU, Japan) other in textiles and apparel (the United States). Some LDCs have comparative advantages in agriculture and food (sub-Saharan African LDCs) other in apparel (Bangladesh). These differences in the patterns of protection across Quad countries, coupled with differences in comparative advantages across LDCs, explain why a joint action from all Quad countries can be much more effective than isolated initiatives of single donor countries.

As things stand now, African countries are still facing a number of serious barriers in terms of access to Northern markets. According to a recent study, "total transfers by consumers and budgets to agriculture and highly protected industries [in OECD countries] may be estimated at about $470 billion in 1997. Developed countries could save 2.2% of their GDP annually on subsidies, corresponding to almost 10% of the GDP of developing countries. Total subsidies amount to more than half of developed country imports from developing countries and 10 times their concessional ODA." In the context of SSA, the annual transfers mentioned above are the equivalent of 241% of the region's combined GDP. Peak tariffs and quotas, anti-dumping and countervailing duties imposed on imports, sanitary and phytosanitary import restrictions, export subsidies for agricultural and industrial products, various production and investment subsidies for both agricultural and industrial production, and

finally, anti-competitive practices implemented by Transnational Corporations (TNCs) are the measures which not only generate distortions against African and other developing country exporters, but also have adverse effects in the domestic markets of these countries.

The net impact of the elimination of all distortions operating against developing country producers in external and domestic markets has not, as yet, been estimated. There are, however, some limited estimates. The gains to economies in SSA from the elimination of agricultural protection in OECD countries is estimated to be $6 per capita. Another piece of research on the market penetration impact of full duty-free access for LDCs in the Quad only for tariff-peak products (i.e. covering only those items with tariff rates above 15%) comes up with an estimate of an 11% increase in LDC exports to the Quad. This conservative estimate should be revised upwards when extended to all commodities and all developed countries. Finally, another study covering 37 countries in SSA on the impact of duty- and quota-free access to the Quad in all products gives an estimate of a 13.9% (i.e. $2.5 billion) increase in non-oil export revenues.

It is clear that if all of the above-mentioned distortions in developed economies are eliminated, the market penetration potential for LDCs and African economies will be substantially higher.

(b) Africa and the international trading system

There is a perception that the asymmetries and imbalances in the global trading system, including some WTO agreements, constitute major impediments to growth and development in Africa. African countries themselves have reiterated this view on several occasions in recent years. Many of these countries, including the large majority of LDCs, continue to face difficulties in implementing the agreements, including adapting national laws and regulations and improving their institutional capacities to meet their WTO obligations. Their access to industrial country markets remains restricted in areas in which they have competitive advantages, including agricultural products and labour- and resource-intensive manufactures. They have yet to draw significant benefits from their participation in the multilateral trading system.

Technical assistance can certainly play an important role in improving the capacity of these countries to better evaluate the costs and benefits of various agreements and practices, as well as to participate more effectively in multilateral trade negotiations and the dispute settlement mechanisms.

Tariffs, peaks and escalation, non-tariff barriers such as export subsidies and domestic support measures, the application of stringent sanitary and phytosanitary measures in industrial countries restricting African exports should be reviewed. There is also need for further improvements in market access for African agricultural products and in the implementation of the Agreement on Agriculture, including in meeting core development concerns such as food security, poverty reduction and rural development, as well as the implementation of special measures in favour of LDCs and net food-importing countries. Improved market access facilities should be supported and supplemented by specific capacity building programmes to help these countries to diversify their exports and improve competitiveness.

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[1]The MENA region appears to be an exception to this trend; see IMF/WB Development Committee, "Leveraging Trade for Development: World Bank Role" (mimeo), 3 April 2001, figure 1.

[2]World Bank, *Can Africa Claim the 21st century?*, Washington, D.C., 2000, Table 1.4, page 22.

[3]World Bank, *Can Africa Claim the 21st century?*, Washington, D.C., 2000, Table 1.4, page 22 As noted above leakages during the late 1990s through these channels were higher, amounting to 3% of total net capital inflows to SSA. The above calculations are based on a smaller proportion as they refer to both 1980s and 1990s; see UNCTAD, *Capital Flows and Growth in Africa*, New York and Geneva, 2000, table 3.

[4]IMF/WB Development Committee, "Leveraging Trade for Development: World Bank Role" (mimeo), 3 April 2001, page 3.

[5]E. Supper, *Is There Effectively a Level Playing Field for Developing Country Exports?*, UNCTAD, policy issues in international trade and commodities study series, no. 1, United Nations, New York and Geneva 2001, page 5.

[6]H. Binswanger and E. Lutz, "Agricultural Trade Barriers, Trade Negotiations, and the Interests of Developing Countries", UNCTAD X, High-level Round Table on Trade and Development: Directions for the Twenty-first Century, December 1999, page 5.

[7]B. Hoekman, F. Ng and M. Olarreaga, "Tariff Peaks and Least Developed Country Exports" (mimeo), February 2001.

[8]E. Ianchovichina, A. Mattoo and M. Olarreaga, "Unrestricted Market Access for SSA: How much is it worth and who pays?", World Bank Working Paper 2595, April 2001. The EU's free access to LDCs under the "Everything but Arms" programme, according to the same authors, would be expected to generate an export increase of $513 million, i.e. 2.8 % Of non-oil exports to the 37 countries in SSA.

[9]Third ordinary session of OAU/AEC Ministers of Trade, Cairo, September 2000; OAU Council of Ministers, Tripoli, February 2001; High-Level Brainstorming Meeting for African Trade Negotiators Preparatory to the Fourth WTO Ministerial Conference, Addis Ababa, 26-29 June 2001.

THE GLOBAL CITIZENS MOVEMENT

Susan George*

Introduction

Before Seattle, the media paid virtually no attention to years of hard work and organising that has taken place, the first counter-G-7 summit was held in London in 1985. Long before Seattle, thousands of people from North and South had contributed to innumerable studies, books, films, symposia, conferences and public demonstrations denouncing North-South inequalities and mal-development, structural adjustment and debt slavery. "IMF riots", as they are called by the people concerned, had occurred in dozens of Southern hemisphere countries with considerable loss of life. Indian farmers had marched against large dams and burned genetically modified crops. The Brazilian "sim terra" had occupied farmland. The Korean trade unions had undertaken long and dangerous strikes. One could go on and on.

A number of important international activist networks developed in the 1980s and early 1990s, like the "World Food Assembly", the "Debt Crisis Network" or the "50 Years is Enough" campaign trying to reform the World Bank and the IMF, or protests against the patenting of life and the all-inclusive agenda of the WTO; not to mention countless environmental battles and anti-corporate struggles. In 1997-98, a brand new French coalition with support from similar ones throughout the OECD successfully pushed the French government to withdraw from the Multilateral Agreement on Investment [MAI], causing its collapse and subsequent formal demise. "Marches of the unemployed" in Europe protested the impact of financial markets and transnational corporations on jobs.

In 1998, the Jubilee 2000 campaign brought 70 000 people - far more than were later present in Seattle - to the counter-G-8 demonstration in Birmingham and nearly that many to Cologne the following year. Many of them had never before participated in any public political event but were sufficiently motivated by the evils of third world debt to take the train, carry a poster and form a

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human chain against the "chains of debt". The media blinked, then yawned; as for the G-8, it made the usual promises which, as usual, were not kept.

Seattle is now seen as a watershed because the media finally accepted there was another voice out there besides governments and business. Citizens might actually have something important to say and say it forcefully.

However, and sadly, many North-Americans in particular are convinced that the mainstream media noticed Seattle only because hundreds of poorly trained, robotic riot police confronted tens of thousands of well-trained, creative, non-violent protestors as well as a few dozen extremely marginal violent ones [some of the latter police, as we now know]. It was also the first time that a determined group of people had the gall and the guts not just to protest across town from a major international gathering, but to stop it altogether. They took the powers-that-be completely by surprise.

Now, those powers, although they have clearly learned nothing else, have learned that they can only meet in sealed-off fortresses [Prague, Quebec, Genoa], deserts [Qatar] or mountain lairs [the next G-8 in the Canadian Rockies]. Their only other response to the protests has been to repeat the same tired formulas and insist that they are sole guardians of the Truth. Refusing to hear what the movement is saying, they have chosen to insulate themselves from it.

This was nicely noted in a surprising quarter, The Financial Times: "The response to the protests has been largely one of spluttering indignation. Instead of listening, even learning, the politicians have lectured".

From the protestors' side, as opposed to the media's, Seattle can also be seen retrospectively to have marked a turning point. Simply put, we are no longer on the defensive. Just as this mobilisation did not start with Seattle, so it will not end with some other singular event like the police-riot in Genoa. It will assume different forms in different places but it is an increasingly international phenomenon, it has taken on a life of its own and is now an organic, permanent presence on the world stage.

Although still very young, the movement is fast moving towards maturity and its participants are gaining in knowledge and confidence. It is the nature of this movement, its history and its agenda that I understand to be under discussion here and the subject of my contribution.

"Who are these people anyway?"

To the increasing irritation of the people concerned, the media constantly refer to them collectively as "NGOs" or, worse, as "anti-globalisation". Some, though by no means all, participants do belong to Non-Governmental Organisations with a single-issue focus [Greenpeace, Amnesty, Jubilee, Via Campesina, etc.]. The movement itself is, however, multi-focus and inclusive. It is concerned with the world: omnipresence of corporate rule, the rampages of financial markets, ecological destruction, maldistribution of wealth and power, international institutions constantly overstepping their mandates and lack of international democracy. The label "anti-globalisation" is at best a contradiction, at worst a slander.

As has been made clear, these forces call themselves the "social" or "citizens' movement". They are opposed to market-driven corporate globalisation but they are not "anti-globalisation" per se, which would be pointless: clearly technology and travel are bringing us closer together and this is all to the good. They are, instead, anti-inequity, anti-poverty, anti-injustice as well as pro-solidarity, pro-environment and pro-democracy.

Battle lines are being more clearly drawn than at any time in the past hundred years and they are being drawn internationally. Participants in the movement understand with greater or lesser sophistication that only a political project can save the planet's ecology and provide for the inclusion of everyone in the global economy on decent and dignified terms.

This is why, mostly over the last five years, people who never before worked together are shaping a common project. Some people date the new consciousness not from Seattle but from the emergence of the Zapatistas on 1 January 1995, to coincide with the birth of the World Trade Organisation.

Some see special significance in the French public service worker strikes in the winter of 1995. All recognise the fight against the MAI, which preceded Seattle, as an unexpected, if partial, victory. Why was the defeat of the MAI significant? This treaty, negotiated in secret for the previous two and a half years, would have given blanket rights to transnational corporations and portfolio investors, including the right to sue states for loss of present or future profits. States had all the obligations, corporations all the rights.

The French coalition had a particular responsibility as Paris is the headquarters of the OECD, where the negotiations were conducted. Among the activists who

united were cultural industry workers and film-makers, greens, women's organisations, immigrant rights groups, researchers and academics, trade unions, the small farmers organisation, North-South development activists, some left political parties and many others. Similar coalitions sprung up in other OECD countries and links between them were quickly established. In this sense, the Financial Times was correct to call the coalition "network guerillas". Ideas and information do travel faster electronically and we never would have had the funds to carry out the campaign with phone, fax and ordinary mail.

The MAI struggle was a kind of introductory course on the real nature of globalisation and a trial run for what followed. People who learned to know and trust each other have remained in many informal structures and belong to the same list-serves on a broad variety of issues - the Tobin Tax, the International Financial Institutions, Debt and Structural Adjustment, the WTO and the like. As the political powers that stand behind the spread of corporate globalisation have continued to meet since Seattle [in Washington, Prague, Davos, Nice, Barcelona, Gothenburg, Genoa, etc.] national coalitions in each country have "hosted" international forums and protests. The Swedish coalition preparing for Gothenburg numbered over 300 organisations, the Genoa Social Forum about 750 and so on.

The ATTAC movement [literally Association for the Taxation of financial Transactions to Aid Citizens] occupies a special place in this historic development. ATTAC began in France in response to an editorial in Le Monde Diplomatique in December 1997 following the Asian financial crisis which called for application of the "Tobin Tax" on currency transactions. The editorial provoked hundreds of letters from readers who wanted to become involved and the idea of creating an organisation to take up the issue matured into ATTAC, founded in June 1998. ATTAC-France now has over 30 000 members and about 220 local committees.

ATTAC organisations, large and small, now exist in some 30 countries, including some in Latin America and Africa. They may be persecuted by the government as in Tunisia. For reasons we cannot entirely explain, ATTAC has not spread to the "Anglo-Saxon" world, although we have many counterpart organisations and working relations in Britain, the US, Australia et al. Relative to the total population, ATTAC Sweden, Belgium and Switzerland are larger than ATTAC France. While there is no formal "ATTAC International", members from different countries meet regularly and share the same goals.

The Tobin Tax is still central to the agenda, but this agenda now addresses corporate-led globalisation much more broadly and takes in the international financial institutions and the WTO, financial markets and pension funds, tax havens, third world debt and structural adjustment, genetically manipulated crops, mass firings by transnationals to increase their stock value, denial of vital medicines to AIDS patients and the like.

These broad coalitions may not agree on every detail of every issue but they share the basics. They refuse the "Washington Consensus" vision of how the world should work. Often unjustly accused of "having nothing to propose", they are, on the contrary, constantly refining their arguments and their counter-proposals. An exceptional moment for such work is the Porto Alegre [Brazil] World Social Forum, held at the same time as the World Economic Forum in Davos.

In Porto Alegre, but at other events as well, the emphasis is not merely on stopping the adversary from committing ever more egregious horrors, however necessary that may remain, but also on developing consensus around a more forceful agenda of proposals, solutions and devising strategies for attaining them. Although they have often been overshadowed by violence, "counter-summits" always include forums and "teach-ins" attracting thousands of people where recognised movement experts lead seminars and debates. In Gothenburg, there was even an encounter, via video and giant screen, between eight such experts and Romano Prodi, Joschka Fischer, Javier Solana and two prime ministers.

These debates must also try to deal with the increasingly panicked, irresponsible and violent reactions coming from the side of the state and the corporate elites as well as the [often police-infiltrated] violence of elements claiming to be on the protesters' side. Tactics are one of the most hotly debated issues in the movement today and the answers are not simple. Yet for the participants, such problems do not seem insurmountable and the overall feeling is one of great hope and optimism.

Adversarial Arguments

We have been subjected to sustained propaganda concerning the supposed benefits of "globalisation". One tool used by neo-liberal spokesmen is the constant repetition of misinformation to try to convince people that "globalisation is good for everyone". It was thus heartening to see the results of an opinion poll ordered by Le Monde just before the G-8 summit in Genoa which

shows that the French, at least, don't buy this line. Replying to the question "who benefits most from globalisation", 55% said "transnational corporations", 47% "financial markets", 32% "the United States", 11% "Europe", 7% "consumers" and only one % "everybody" [two answers possible].

Another favourite argument is that over the last 20 years, more people, absolutely and proportionally, are supposed to have joined the ranks of the materially blessed. This too flies in the face of the evidence. If you can't pay, you can't play. That is why it is naive and dangerous to accept the word "globalisation" at face value; to assume that it means a process from which all the earth's inhabitants will eventually benefit, even if they must wait a very long time. This is nonsense; it is nonetheless the dogmatic view of its proponents - most recently President Bush - who never tire of repeating that "enemies of globalisation are enemies of the poor".

It is not my intention to demonstrate the validity of these assertions because this has been done again and again. Studies by the Washington think-tanks Centre for Economic Policy Research, Institute for Policy Studies and the Economic Policy Institute or by scholars at the United Nations University all show that inequality has worsened, growth has slowed and rewards to capital far surpass the gains of labour. To give only a few examples, in the United States, the median real wage is nearly the same as it was 28 years ago whereas it had increased by 80% in real terms over the previous 27 years.

Globalisation has not improved growth - quite the opposite. Between 1960-1980, growth worldwide was many percentage points higher than in the period 1980-2000, particularly in Latin America and Africa. Over the past 20 years, inequalities have increased drastically both within and between countries. This skewed distribution of wealth has been more than borne out by the findings of successive UN Development Programme Human Development Reports or the UNCTAD Trade and Development Reports: the top 20% of the world population now indeed holds more than 80% of the wealth; the bottom 20% makes do on slightly over 1%.

Someone or something must be responsible for such a marked evolution, which can no longer be denied. The citizens movement believes that "something" is globalisation. In order to stress the perception that transnational corporations, financial markets and the holders of capital are the chief beneficiaries, movement people usually add a qualifier like "corporate-led" or "corporate-driven globalisation". The opposition is convinced that for the half

of the world unfortunate enough to be living on less than $2 a day, "globalisation" means further concentration of wealth and power at the top of the social scale and their own continuing poverty and marginalisation.

Nor does this movement believe, contrary to the neo-liberal camp, that everyone can be included in the economic benefits of globalisation although these benefits have been undoubtedly real for 10% to 20% of any given population. The unfettered market without progressive taxation and redistribution will, as Vilfredo Pareto saw a century ago, follow a "20/80" distribution pattern in which 20% of the population controls 80% of the assets.

Movement participants further affirm that this economic system has absolutely no plans for the billions left out no matter how many years we may wait; that the global market based on the competition of all against all is an engine for exclusion and will tend to freeze people, nations and entire regions, with few exceptions, at the level at which they presently find themselves. Furthermore, as the great economic anthropologist Karl Polanyi was the first to show, the market, left to itself, will destroy both society and nature.

Specific Issues on the Pro-Democracy Agenda

One can be justifiably suspicious when one hears the word "governance" emerging from this mistrusted leadership. They would like to see the notion of governance applied to those who use it so glibly for others. When the World Bank and the IMF speak of governance, for example, they mean simply another set of conditions to be added to the long list of conditions already set out in structural adjustment programmes.

Where is "governance" when neo-liberal globalisation not only leaves out vast swathes of humanity and intentionally weakens the state but also plunges even countries like the erstwhile "tigers" Korea, Thailand or Indonesia into financial chaos and mass unemployment? Where is governance when the IMF deliberately turns a blind eye to the looting from Russia of billion of dollars in its own hard currency loans? Over the decade of the 1990s, under the guidance of the IMF and the World Bank, the Russian economy shrank by more than half. The number of poor people skyrocketed from around two million to over 60 million. Such disasters as have occurred in Asia, Latin America and the so-called "transition countries" show that, contrary to the neo-liberal myth, freedom of capital flows, highly leveraged loans and uninhibited portfolio equity investment are not the road to prosperity but to ruin.

Despite all the talk two or three years ago about "new financial architecture", no new safeguards have been put in place and at this writing, we are all waiting for the collapse of Argentina followed by who knows what other human disasters. Instead of calling a halt to its policy of safeguarding creditors' assets at all costs, the IMF has set up yet another $90 billion bail-out fund. It does not respect the legal principle of "odious debt" and forces debtors to honour the debts contracted even by previous corrupt totalitarian, military or apartheid regimes.

Although the IMF has lately soft-pedalled the issue, until the financial crisis of 1997-98, its only idea of "governance" for its own account was the attempt to change its Articles of Agreement for the first time since they were adopted in 1944. The IMF wanted to drop Article VI, 3 which specifically recognises that: "Members may exercise such controls as are necessary to regulate international capital movements". It wanted to make total freedom of capital circulation a condition for membership. It has also ignored its own Article VI, 1 which declares that: "A member may not make net use of the IMF's resources to meet a large or sustained outflow of capital..." and indeed has caused many member-countries to do exactly the opposite. It has thus protected Western creditor assets however reckless and greedy those creditors may have been. Unrestricted capital flows and fluctuating currencies whatever the political and economic circumstances may be a speculator's paradise but they invariably harm ordinary people.

The movement, for its part, is demanding a genuine new financial architecture. Careless lenders and imprudent investors should be forced to take responsibility for their actions [aren't risk and responsibility what capitalism is supposed to be about?]. The IMF should once again become what Keynes intended it to be: a mechanism for helping countries with temporary balance of payments problems. It should advise them on how to avoid contracting future debts in hard currencies and should supervise a long-overdue debt workout: outright cancellation for the poorest [and of all odious debts]; orderly bankruptcy proceedings and write-downs for many others. If it cannot be reformed, the IMF should be abolished and a new international lending institution started from scratch.

It may well prove necessary to have several, more local funds as Japan proposed to create for Asia during the Asian financial crisis. The United States immediately put a stop to such a plan; the IMF listens closely to the US Treasury.

Sustained citizen campaigns on debt have gone on for longer than on any other global issue. The G-7 has acknowledged this movement and cannot say it has not been made aware of the problems. What has been its actual response on third world debt? Despite years of work by hundreds of thousands of people and the collection of literally tens of millions of signatures, significant debt relief for the poorest - much less the slightly better off - remains a dim hope on an ever-receding horizon. At a conference on debt strategies in Lima in 1988, the well-known Peruvian economist Javier Iguiniz made what sounded like a quip but was in fact a serious remark: "Don't cancel what we're not paying!" "Cancelling what they weren't paying" is what most "debt relief", trumpeted by the G-7, has amounted to so far.

Since most poor countries, despite the enormous sacrifices of their peoples, are still unable to remit the total debt service theoretically due, the unpaid portion is added to the principle. Cancelling that portion may mean that debt grows more slowly: it does not mean that the actual burden has been lessened from year to year. And so far, in the eyes of the Bank and the IMF, only five countries have proven worthy of relief through the stiff HIPC [Highly Indebted Poor Countries] terms. Overall, less than 5% of total debt stocks has been cancelled.

People who have worked on these issues for many years have frequently arrived at the conclusion that debt is not a financial or an economic problem at all, but in every way a political one. It is the best instrument of power and control of North over South [and now East] ever invented; far superior to colonialism which requires an army, a public administration and attracts a bad press. Control through debt not only requires no infrastructure but actually makes people pay for their own oppression.

Structural adjustment programmes are often beneficial to local elites, providing them with such advantages as rock-bottom wages and opportunities for buy-ups of privatised companies. They are happy to cooperate. Debt has further atomised the debtor countries politically and made them far less of a threat to established Northern interests. Once significant organisations like the G-77, third world-led initiatives in the United Nations like the "New International Economic Order", are defunct or toothless.

The citizens movement sees debt relief as an essential condition of more equitable North-South relations and many people stress that it should be accompanied by restitution of the riches siphoned from the South for decades or centuries. Private banks as well as public [multilateral and bilateral]

creditors should be obliged to participate as they have already been paid back many times over. On the front of international commerce, the movement is also determined to transform the World Trade Organisation. Contrary to what is often implied, everyone agrees that the world trading system needs rules. The question is who makes them and for whose benefit. One can show only too easily that transnational business is the beneficiary, to the neglect of all other sectors of society.

The General Agreement on Trade in Services, GATS, is seen as particularly dangerous as it provides a broad avenue for corporate interests to invade the civic sphere. Corporations active in services sectors see public education, health care, transport, and environmental services not as rights and public goods but as gigantic markets. Now that more and more citizens have understood what is at stake, the WTO is worried and accusing its "hostile and ill-informed" critics of maliciously "spreading scare stories".

The fact remains that essential services for which previous generations fought and sometimes died are open to attack and, under present circumstances cannot be durably protected. The GATS limits public services not covered by its rules to those "supplied neither on a commercial basis nor in competition with one or more service suppliers" and the Services Council has established that this Article [I, 3, c] "should be interpreted narrowly".

Furthermore, prescriptions against subsidies, the fact that governmental regulations in a host of areas will be open to challenge as "unnecessary barriers to trade", refusal to consider the "precautionary principle"; lowering of public health and food safety standards; the patenting of life forms and universal patent protection of medicines and other vital goods for twenty years; the dangers of irreversibility and many other issues have made citizens extremely wary not only of the GATS but of the WTO in its entirety. Its dispute resolution body, operating in secrecy, has no obligations to place any other international law above the rules of the WTO itself: neither the Universal Declaration of Human Rights, nor Multilateral Environmental Agreements, nor ILO labour conventions. The WTO is entirely independent of the United Nations and therefore of the international law it has developed.

What to do and How to do it

It is curious that, as the world slips deeper into recession, established leaders do not seem to have a clue how to come out of it. The solution to this problem

is over 50 years old. It was invented by Keynes for the national context and used successfully in the international sphere after the Second World War. This post-war solution was called the Marshall Plan and it put Europe back on its feet, re-establishing it as a viable trading partner for the United States.

Today there are two Keynesian ways to kick-start the world economy. One is massive international spending on preserving and repairing the environment. The other is to start including the billions of people left out of the world economy by corporate-driven globalisation. The UN Development Programme claims that approximately $90 billion a year would cover a basic standard of living - enough food, clean water, shelter, basic health care and education - for everyone on earth. Let's say, generously, that the "basics" programme plus environmental clean-up and preservation would cost $200 billion a year for 10 years. In today's world, this is a paltry sum.

It is vain to hope that Official Development Aid will ever do the job. ODA from the OECD countries is dropping precipitously at about 5% yearly, proving that Northern concern for the South was largely a Cold War phenomenon and many countries simply have lost any strategic interest they might once have possessed. The UN 0.7% goal is a pious fiction - ODA now represents a scant 0.22% of the GDP of member countries according to the OECD Development Assistance Committee. Total aid from G-7 countries fell by a further 5% in the year 2000.

We should stop pretending that real change will emerge from national budgetary contributions and go for the money where it really is, on international financial markets, in tax havens and in coffers of transnational corporations.

One hundred years ago, inequities in the now-wealthy countries were brought to public attention by a few crusaders. Health and education standards, illiteracy, appalling housing, crime, infant and child mortality rates in the poor neighbourhoods of London and New York were in all respects comparable to what one finds in many third world countries today. These gross inequalities were eventually recognised as not merely scandalous but dangerous to society as a whole, including its more privileged members. Though many of the latter ranted and raved and claimed the end of the world was at hand, graduated income taxes were finally introduced so that redistribution and social inclusion could proceed.

We now stand at just such a crossroads with regard to North-South inequities. Money to deal with them is available but it will have to come from international taxation. Such repair and renewal is in everyone's interests. The present holders of extraordinary wealth, like the rich New York a century ago, will, naturally, resist. This is no reason, quite the contrary, to lessen the pressure.

The Future?

The citizens movement wants to remain exactly that: a movement. So far, it has suffered no temptations to transform itself into a political party, much less a "revolutionary" party, and its members come from a variety of party political backgrounds or, frequently, none at all. The tacit bet is that it is still possible to work through existing political structures. How long this conviction will continue to guide the movement is anybody's guess. It is extremely worrisome that trust in conventional politics is rapidly fraying. Thus I hope to have conveyed something of the urgency of addressing the concerns brought forward by the citizens' movement. If they are not dealt with, and soon, we will witness even deeper social divides, increasing disgust with nominally democratic institutions, hardening of positions, confrontation and escalation of violence, mostly by the state. Those who maintain that the present world system is incapable of self-regulation and reform will be proven correct.

The lessons of Genoa have not been lost on activists. We have already witnessed citizens' democratic rights being trampled and free expression denied with unprecedented brutality. European governments which rightly protested the election of Jörg Haider in Austria and momentarily boycotted the entire country have said nothing about fascistic police behaviour in Genoa under the orders of a G-7 government.

The consequences of spreading distrust in conventional politics and governments are unforeseeable. Those who, like me, are struggling to avoid the paths of repression, upheaval, violence and chaos and are proposing practical solutions; those who hope not for some undefinable worldwide "revolution" but for a kind of universal welfare state - a perfectly feasible goal materially speaking - will be marginalised or radicalised. There is no polite way to say this: movement people, particularly young people, are angry. Nowhere in the realms of actually existing power can they discern the slightest sign of serious recognition or responsible behaviour concerning the life-threatening problems faced by human beings and the earth; neither on the part of the G-8 governments and the European Commission, nor that of the multilateral

institutions like the World Bank, the IMF, the WTO; nor, above all, the transnational corporations, the financial markets and their numerous lobbies that have assumed unprecedented sway over human affairs.

What this movement does see is unbridled greed, the undivided reign of capital over labour and of rich over poor, rules made to insure freedom of trade in all goods and services at the expense of every human value; rampant privatisation, the destruction of public services and the dismantling of welfare states where they exist and policies to make them forever impossible where they do not; massive and accelerating destruction of the earth, its climate and its creatures - all this in the name of a fraudulent "efficiency", increased profits and so-called "shareholder value".

They see leaders who, once elected, are deaf and blind to the needs of ordinary citizens but attentive to those of corporations. They see an increasingly discredited political class worldwide and, with it, the discrediting of the notion of politics itself. They see that the state is prepared to use not just huge repressive "robocop" forces, horses, dogs and tear gas against them, but live ammunition as well. They see all this, they are enraged and they are moved to fight. I am attempting to explain to people of good will why this movement is not going to go away; also why state-corporate power is hardening and can be expected to continue to repress, defame and criminalise citizens exercising their democratic rights. The notion of "dialogue" with such an adversary is becoming daily more problematic. So far, what we have witnessed is "dialogue" which will be prolonged only so long as those in power can set the terms, name the participants, decide which subjects are on the table and which are taboo, and generally put off any genuine change.

The crystallisation of anger and mistrust are at the root of the "post-Seattle" phenomenon as well as the new confidence of the movement. Anger is legitimate when, in an age of wealth and plenty, life remains nasty, brutish and short for billions; so is the mistrust of a leadership which is at best timorous, at worst frivolous, pretentious and mean-spirited. Repeated claims of its desire to "help the poor" ring increasingly hollow. The Genoa G-8 proposal of a miserable $1.5 billion to deal with AIDS, malaria and tuberculosis was particularly disgraceful given that Kofi Annan had, only weeks previously, asked the "international community" for $7 to $10 billion to deal with AIDS alone. This "international community", led by the G-7, has so far rejected every opportunity for remedy in every area, and listened only to a minority. Thus a new

generation, not all of it young, a kind of "trans-generational, trans-class, trans-gender and trans-national generation" is rising internationally in opposition.

People with knowledge, confidence, numbers and organisation can unmake what some have made, they can undo what some have done. This movement has made a momentous discovery and revealed a dangerous truth: the corporate coup d'état, the triumph of rich over poor, market over society, rapacity over nature is not inevitable. And we will be heard.

THE NEW PARTNERSHIP FOR AFRICA'S DEVELOPMENT (NEPAD)

By Ben Turok*

President Thabo Mbeki's campaign for Africa's renaissance has generated an unexpectedly warm international response. As recently as May this year the Economist's cover story declared Africa to be "The Hopeless Continent" following years of references to it being "a basket case" deserving to be written off as beyond remedy. Mbeki's initiative, backed by an energetic campaign around the world's capitals and international organisations, seems to have brought a much more positive response.

In part the campaign is based on a major effort to bring about corrective measures in governance and security on the continent itself. But there is also another vital dimension, namely to entice foreign aid and investment on a far greater scale than previously. And there is undoubtedly an acceptance of globalisation and the necessary integration of Africa's economy into the world economic order.

In this respect NEPAD differs from earlier perspectives and particularly those of Adebayo Adedeji, the father of Africa's plans for regional and continental economic development. Even before Adedeji became head of the United Nations Economic Commission for Africa, he produced the Lagos Plan of Action as a blueprint for African economic unity. This plan was written before the globalisation bug became fashionable. Indeed Adedeji was most concerned with foreign interference in the affairs of African states, though he also accepted that a degree of integration in the world economy was necessary. His nationalist response to the IMF for instance led him to produce a major document African Alternative Framework to Structural Adjustment Programmes (AAFSAP) which called for "collective economic self-reliance" and an "inward-looking strategy," which became the standard reference work for critics of IMF policies.

These views have now been overtaken by the new emphasis on globalisation, integration and economic orthodoxy. But one element of Adedeji's thought and

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practice remains. He was the founder of regional integration and was actually responsible for the setting up of the Economic Community of West Africa States (ECOWAS). He continued to advocate regional integration for the rest of Africa, including the East African Economic Community of Uganda, Kenya and Tanzania. These regional blocks would become the basis of all African unity, a position not far from the present situation.

Adedeji's views on regional integration went beyond the conventional. He argued that regions must go beyond removing tariff barriers and give priority to production and creating suitable infrastructure. This would lead to economies of scale, generate new forward and backward linkages and alleviate financial constraints. He later added the importance of people-centred development, democratisation, better attitudes to work, saving, investment habits, skills development and improving social systems. In short, he anticipated many of the progressive reforms now being advanced in NEPAD.

But he seems to have been ahead of his times and his plans were not implemented. It may be important to see why, so that history is not repeated. The short answer seems to be that external forces saw African regional integration and unity as a threat to foreign interests. Recently, the World Bank's Development Report stated that the growing popularity of regional trading arrangements has ignited concerns that this will discriminate against imports and investments from non-members and therefore undermine the global trading system.

Speculation on Africa's integration, regional and continental, was fuelled by the ANC's coming to power. Adedeji once again took the initiative by calling a conference in Windhoek in January 1994 where he posed the question, "South African and Africa: Within or Apart?" the conference pointed to the fact that the OAU had cut off apartheid South Africa, at considerable cost to the continent. Apart from direct economic consequences there had been serious regional destabilisation. Efforts by the apartheid regime to set up a constellation of friendly states had failed due to Africa's opposition.

Instead of linking up with apartheid South Africa, a counter strategy was developed in the form of the Frontline States which then created the SADC, PTA and COMESA, as trading blocks with strong political dimensions. But these organisations struggled to establish a new order based on mutually beneficial political and socioeconomic relations. In part this was due to a lack of the necessary political will, but some believed that the absence of South Africa was an important factor.

Would this change now that the ANC was in power, the Windhoek conference asked? Adedeji proposed the following requirements: greater access to the SA market, a boost in earnings for the region from the provision of services in SA, a progressively liberal regional labour market, balanced regional transport infrastructure, balanced location of industries and investment and equitable relations and institutions across the region.

I was a member of the steering group of the conference and a long term advocate of South African integration with the continent but I found these demands hard to answer as I knew that the main thrust of economic policy at the time was to give priority to rebuilding relations with those who controlled our access to markets in Europe and America. The best I could do was to say that the ANC was preoccupied with the internal transition. It was also clear that our economic re-entry into Africa would have to be on the basis of mutual benefit, and not solely on political considerations, if we were to avoid a backlash.

But these views have now been superceded by NEPAD. South Africa has now recognised as never before the necessity of Africa's unity and economic integration. The tough world of globalisation and the polarisation of North and South require a totally new geopolitics which is based on a new patriotism on the continent combined with pressure for better terms from the North. Collective economic self-reliance may not be feasible in the present era, but joint pressure for access to the markets of Europe and America is on the agenda, as is a demand for debt cancellation and some form of compensation for the injustices of the past.

THE INTERNATIONAL RESPONSE TO THE NEW PARTNERSHIP FOR AFRICA'S DEVELOPMENT

By Ben Turok

Abstract

The official statements of the Group of Eight and of the IMF, World Bank and WTO have for some years deplored continuing poverty in the developing world. Nevertheless poverty and global inequality has increased. However the New Partnership for Africa's Development - NEPAD (previously the New African Initiative - NAI) - seems to have triggered a positive response, beyond expectations. This paper analysis the possible reasons based on a reading of statements by officials and their critics.

Introduction

The international response to the NEPAD has been positive, beyond expectations. Given the widespread dismissal of the African continent as a "basket case" or "The Hopeless Continent" (Economist, May 13,2001), it is gratifying to see such a turnaround. The G8 Heads of State have each appointed a senior expert to a task group (France no less a person than M Camdessus) which will report directly to the G8. This is the first time for years that the G8 have given serious attention to Africa, indeed the NEPAD was the dominant issue at the last meeting. Furthermore since Canada now holds the chair good progress may be made. At the Genoa meeting the Group of Eight - the heads of state and government of eight large industrial countries, including Russia and the European Union said that " the situation in many developing countries-especially Africa - calls for decisive global action." (IMF Survey July 30,2001)

However it is also important to understand (1) the terms that may be laid down for the "decisive global action", and, (2) to assess the reasons for this change of attitude.

On the former point, there is no ambiguity. The statement of the G8 states, "the surest way to address the fundamental aspirations of the poorest countries is to draw them more fully into the global economy, and the most effective poverty reduction strategy is to maintain a strong, dynamic, open, and growing global economy." In a speech at ECOSOC IMF Managing Director Horst Kohler endorsed the NEPAD and added that the advanced countries should strengthen growth in their own countries while the developing countries "should stay the course of structural reform and sound macroeconomic policies." (IMF Survey, July 30,2001) So the terms of global action are fairly conventional though there are also references to the fact that prosperity in the advanced economies cannot be sustained in the presence of widespread poverty.

On the reasons for an apparent change of attitude we have to dig deeper. A preliminary view is that it may arise from a concern that the world system is in a condition of "unstable equilibrium", coupled with a loss of confidence in the major international economic institutions (the fumbling with the WTO is the latest manifestation) and that the big powers had better take steps to calm the waters. The indications for this view are the basis for this paper.

The Poor As The "Ultimate Systemic Threat"

In a farewell speech to the Council on Foreign Relations in New York, Michel Camdessus, head of the IMF, said that reform of the international financial architecture implied greater economic policy co-ordination and co-operation among all nations and international institutions to maintain global stability and reduce the incidence and severity of financial crises. He added that if we look to the future we can anticipate, inter alia, the potential for a surge in extremism and violence if we are not able to reverse the trend toward greater inequalities between the poorest countries and the affluent countries.

He went on to say that we live in a world where we must always expect the unexpected. That the plight of the poorest countries - and the poorest people within them-is the "ultimate systemic threat". Despite all the efforts of the past 50 years, gains have been too slow: per capita income in many of the poorest countries has declined, debt has increased, and poverty remains widespread. (IMF Survey February 7, 2000)

Camdessus speeches have often pleaded for attention to world poverty, so often as to give rise to cynicism. But these remarks go much further and are quite

extraordinary for a person who was at the head of economic policy-making internationally for many decades, who was known to be the iron soul of tough structural adjustment programmes throughout the Third World, and who has been blamed by many for this same poverty. Were these the thoughts of a disappointed bureaucrat on the verge of retirement? Perhaps, but while his terms were rather dramatic, his sentiments have been echoed by many other top personalities.

President of the World Bank, James Wolfensohn has been no less outspoken about the need for radical reform of the world's economic system to address poverty. He said: "There is a growing sentiment that there is something wrong with a system in which even countries that have pursued strong economic policies over a period of years are battered by international financial markets, where workers within those countries will be thrown out of work, where their children's education will be interrupted, their hopes and dreams destroyed. While we talk of financial crisis - across the world 1.3 billion people live on less than $1 a day, 3 billion live on under $2 a day, 1.3 billion have no access to clean water, 3 billion have no access to sanitation, 2 billion have no access to power." The lesson therefore, is that "We must consider the financial, institutional and social, together." (Address to the World Bank Board of Governors, October 6, 1998). On many occasions Wolfensohn has stressed that "global poverty is getting worse. The debate on globalisation and its effects on the poor is legitimate and necessary." (April 12, 2000)

Despite some important tensions between the World Bank and the IMF, there has been some convergence in public pronouncements on poverty. Camdessus said recently, "Without any doubt, the next great challenge is humanising globalisation, which calls for an intensified fight against poverty. Although the IMF is not, strictly speaking, a development institution, it is nonetheless our task to seek continuously to help governments and to be responsive to the cries of the poor. They need high-quality growth." (IMF Survey January 10,2000). The reference to "high-quality growth" which the IMF defines as "growth that brings lasting employment gains and poverty reduction, greater equality of incomes through greater equality of opportunity", was a formula replacing previous growth language to show that the IMF is also concerned with the social consequences of macroeconomic policy. (World Summit for Social Development, Copenhagen, March 6-12, 1995)

So, what lies beneath the sharp references to the poor? It seems that there is a deeper concern about current instability, about the ineffectiveness of the

IMF, World Bank and WTO and the sustainability of the present political, economic and social order.

This concern about global system maintenance now appears to coincide with a concern about the failure of the system to deliver a better life for Africa. Conscience is not entirely dead. The usually hard nosed Economist was driven to editorialise as follows: "For many years the rich world has made it hard for Africa to earn an honest living through trade. If North America, Europe and Japan were to eliminate all barriers to imports from sub-Saharan Africa, the region's exports would rise by 14%, an annual increase of about $ 2.5 billion. Another calculation shows that developed countries farm subsidies amount to over $ 360 billion a year, some $ 30 billion more than Africa's entire GDP. Also prices of rich countries exports have been rising, while prices of Africa's primary products have been falling - by 25 % during 1997-9.

"During the cold war, the rich countries were happy to prop up corrupt regimes, fight wars through African proxies, sell weapons to suppress their subjects, and swell their foreign debt. That debt has been crushing for Africa: some countries spend more on service payments than on education and health. Aid has been tied to western exports. Official aid has fallen from $32 per African in 1990 to $19 in 1998. (The Economist Feb 24 2001)

So the link between poverty and the well being of the world system is now widely accepted. For some the situation verges on crisis.

The Origin Of Crisis Thinking

While the Mexican "tequila crisis" was important, it was the South East Asian financial crisis that shook international confidence. As Jeffrey Sachs put it: "For 20 years, east Asia has been the fastest growing part of the world. This was based on several fundamental strengths, including balanced budgets, open trade, export orientation, private sector investment, and high national savings rates. Yet, East Asia was hit by a stampede of foreign banks suddenly deciding to withdraw their loans. There was extreme financial panic. ..(and) The truth is that the IMF does not know what to do. In fact the IMF nterventions have made things worse. The IMF programmes seem to have accelerated the withdrawal of foreign capital." (The Banker February 1998)

Paul Krugman wrote of a "shock that turned miracle into debacle" with the proximate cause being the capital market. He blamed Washington which was

concerned not with economic fundamentals but with restoring market confidence and thus the "crisis became self-fulfilling." (Prospect November 1998)

Joseph Stiglitz, then senior vice president of the World Bank agreed with the view that "the East Asian miracle was real" with one of its most striking features being the impact on poverty. (Dow Jones Newswires February 2, 1998) Yet the crisis was real too, and led to self-critical analysis around the world. The words "meltdown" and "contagion" became common currency.

Camdessus said: "We are speaking not just of countries in crisis, but of a system in crisis." And he asked: "What has gone wrong? ...The social costs have been too high. " And in a break with traditional advice, " we have encouraged the authorities to make room for adequate social expenditure, relaxing fiscal targets as needed. ..sharply increasing the funding for social safety nets." (Address to Board of Governors of IMF October 6, 1998)

So the East Asian crisis became the benchmark for most of the critical reassessment of the functioning of the world economy. Attention turned sharply to the role of speculative capital movements and the "international financial architecture".

Managing The Crisis

The International Financial Architecture

The impact of the Asian crisis was so extensive that it was given special attention at the 1995 Halifax summit of heads of state and government of G7 countries. Subsequently Finance Ministers and Central Bank Governors from a number of systemically significant economies met in Washington in April 1998 to examine issues related to the stability of the international financial system and the effective functioning of global capital markets. Three working groups were formed and their reports published by the BIS, IMF, OECD, and World Bank. They contain some of the most concentrated thinking about the world economy. (Summary of Reports on the International Financial Architecture, October 1998).

The report states that the international financial crisis that began in Asia and has now spread to other continents lends urgency to efforts to strengthen the architecture of the international financial system. The issues are stability, the effective functioning of global capital markets and managing international financial crises. (p 1) The Report notes that global financial markets are

becoming increasingly integrated, yet supervision is fragmented. Recent capital flows to emerging markets have "allowed crisis to erupt and spread more quickly and with greater force than in the past. These new risks make it more essential than ever that countries pursue sound domestic policies to minimise their vulnerability to contagion." (p 17) It supported conditionality relating to financial stability but recognised the importance of proper sequencing as well as the impact on social stability, particularly in crisis situations. (p 15)

But the many discussions about reforming the financial architecture has not dimmed the determination of some organisations to keep poverty alleviation and development issues on the agenda. Foremost of these is UNCTAD and its persistent President Rubens Ricupero. He said: "Measuring economic performance should pay greater heed to growth and distribution than has so far been the case. The quality of development efforts must always be stressed as the basis for the assessment, design and implementation of sound economic policy, both nationally and globally." (Speech at UNCTAD's 44th Session, Trade and Development Board, October 1997)

Present day concerns with poverty seem to indicate that the efforts to focus on the international financial architecture did not derail parallel concerns about poverty.

Role Of IMF Questioned

The unexpected assault on the IMF by world famous Harvard economist Jeffrey Sachs, referred to above, gave impetus to the growing chorus of criticism of that institution. Sachs said: "It is time that the world take a serious look at the IMF. In the past three months, this small, secretive institution has dictated economic conditions to 350 million people in Indonesia, South Korea, the Philippines and Thailand. It has put on the line more than $100 billion of taxpayers money in loans. In Korea, the IMF insisted that all presidential candidates immediately 'endorse' an agreement they had no part in drafting or negotiating- and no time to understand".

"The situation is out of hand. However useful the IMF may be to the world community, it defies logic to believe that it should dictate the economic conditions of life to 75 developing countries with around 1.4 billion people... Without wider professional debate, the IMF has decided to impose a severe macroeconomic contraction on top of the market panic that is already reeling these economies... It is hard to see how recessionary monetary policy will restore calm. None of this overkill makes sense for an economy that was rightly

judged to be pursuing sound macroeconomic policies just months earlier. The IMF is invested with too much power." (Financial Times, Dec 11 1997)

One unexpected response to the Asian crisis was a demand from the US that Europe and Japan share the burden of restoring growth by buying more from emerging economies. If they failed to do so, the US threatened that it could resort to protectionist measures to restrict imports. (Financial Times February 4, 1999) Needless to say neither Europe nor Japan complied, but the argument indicated that the link between emerging country exports and financial stability and contagion was well understood.

Even the WTO, which has cost so much effort to launch, has delivered little, with much of the opposition coming from Third World countries, and with some reason. On a visit to SA's Parliament on the June 20 2000 Mike Moore, Director General of WTO admitted that Africa has been marginalised in international fora, and that the critics are correct in saying that the system is out of balance for poor countries.

It seems, therefore, that just as US hegemony has been established on the firm basis of the free market, there is a growing lack of confidence in the stability and effectiveness of the system to deal with the social consequences.

Social Spending Revisited

In an interview in New York George Soros said: "There's a lot of merit in an international economy and global markets, but they're not sufficient because markets don't look after social needs... they are unstable, leaving it to the markets is very dangerous." (State of the World Forum, September 5, 2000) Soros went on to call for an important role for civil society organisations in world government, a view also endorsed by Mikhail Gorbachev at the same meeting.

On another occasion Soros wrote: "Business is conducted for private gain and not for public benefit...markets are eminently suitable for the pursuit of private interests, but they are not designed to take care of the common interests. ...freedom, democracy, and the rule of law cannot be left to the care of market forces... the global financial architecture that prevails today offers practically no support to those who are less fortunate. (Introduction to the Open Society, Public Affairs, October 2000)

These pronouncements by influential international personalities on the need for social objectives to be high on the agenda, seem to have influenced the

way other world leaders think about the current state of the world, including Africa.

Other Factors

Embarrassment Of Riches

The annual Development Reports of all the major international organisations confirm the growing global inequalities between countries. The data is embarrassing and contradicts the claims about a global system that works for everyone. It seems reasonable to assume that the G8 and the institutions they control need to show that they too are concerned and wish to alleviate the situation. This is certainly the rationale for the HIPC initiative. The arguments for debt relief have become overwhelmingly powerful.

Big Power Rivalry

Despite US dominance, China, Japan, and Russia remain powerful as a potential alternative pole of attraction for developing countries giving some scope for bargaining as in the days of the Cold War. These countries will offer ever growing prospects for better trade relations, but their political clout will increase as well. The accession of China to the WTO must have an effect on the balance of forces within the world trading system. This means that the dominance of the US cannot be taken for granted even in the medium term.

Overwhelming In-Migration

Also making a major impact is the flood of immigrants into Europe and the US (4 million illegal workers from Mexico) which even threaten the survival of national identity in some regions. There is a growing uneasiness that a poor and unstable set of neighbours could undermine the stability of many developed countries.

Opposition To Globalisation

It is difficult to assess the impact on the G8 of the growing criticism of globalisation. Prime Minister Mahathir of Malaysia caused a stir at the annual meeting of the Bank and the Fund in Hong Kong, when he attacked George Soros. But his real target was globalisation and the international system. His views are controversial but worth noting: "A globalised world is not going to be very democratic. It is going to belong to the powerful dominant countries who will impose their will on the rest and they will be no better off than when they were colonies of the rich, it is recolonisation by the same people." (Putra World Trade Centre, Kuala Lumpur, 24 July 1996)

Since then a growing literature has emerged analysing globalisation critically and some of the findings are disturbing.

The Protest Movement

Such criticisms of globalisation have fed the growing public protests at the international meetings of the G8 and the IMF and World Bank. Much as the violence associated with the protest movement has been condemned, it is nevertheless the case that the protests have evoked much public sympathy. Organisations of conscience around the world have reacted critically to the apparent waste of resources at these meetings and the lack of obvious positive results. The effectiveness of these protests may be measured by the recent decision to limit the next IMF meeting in Washington to two days and to allow space for discussions with the leaders of the protest movement.

Conclusion: Reaching Out For Legitimation?

Financial crises in the developing countries, especially that in East Asia, has brought about a great deal of critical thinking on the character of the international financial architecture. Previous optimistic assumptions about the benefits of capital flows are being questioned with a view to putting in place monitoring systems and even some regulatory mechanisms for speculative capital. This requires constant reassessment of the role of the IMF and the World Bank.

But concerns about international financial flows have not closed off thinking about the social dimensions of the international system. It seems to be agreed that signals are required to show an acceptance that Africa needs saving. So the big powers and their institutions seem to be reaching out for a change of image to show that they care about poverty and inequality and are willing to make efforts to address some of the stark problems in Africa.

The warm reception of NEPAD is notable, and if this leads to increased aid this is even more welcome. However the initiative should remain with Africa. Our long experience with foreign aid reminds us that there is always the danger of a takeover of these processes and so it is necessary to pose the two questions raised at the opening of this paper. If NEPAD is given G 8 support, on what terms will this be done? and, in whose interests? These questions must always be addressed when competing interests are involved.

BRIEFINGS

TWO, THREE, MANY ARGENTINAS?

- PORTO ALEGRE CAN PUT A DEBTOR'S CARTEL ON THE GLOBAL AGENDA

By Jeremy Brecher, Tim Costello, and Brendan Smith

International investors have imposed their will on the world by means of a "creditors cartel" -embodied in the IMF, the World Bank, the G-7/8, and their creatures and allies. They have imposed cruel and destructive policies on the people of debtor countries. The elites that control most debtor governments have often co-operated with the foreign investors and enriched themselves. Now the people of Argentina have said: Enough!

As long as Argentines act alone, the creditors cartel will have the power to impose further cruelties on them - and they're preparing to do so. But there's a strategy for turning the tables on the money lenders.

It is common knowledge among lenders - but a secret they keep from borrowers - that creditors are dependent on their major debtors for their own well-being. If debtors can't or won't service their debts, creditors are left holding the bag.

But the only way today's debtor countries can take advantage of such dependence is to break out of the current framework in which each debtor country approaches its problems separately, as a matter between it and the creditors cartel.

Just as a worker is individually powerless before a boss but strong in a union with other workers, so today's debtor countries need to work together to limit their domination by international creditors. Once debtor countries begin dealing collectively with their creditors - summed up in the phrase "debtors cartel" - the result could be a radical shift in the global power configuration.

The threat of a collective moratorium on debt repayment provides the implicit equivalent of a strike. It provides a way to block the kind of reprisals by the

debtors cartel that are now being threatened against Argentina.

Of course debtor governments and the elites that control them are unlikely to pursue such a strategy on their own initiative. But the emergence of a global justice movement, combined with the growing rejection of neo-liberalism among the people of the debtor countries, opens new possibilities for pressuring them to do so - or for replacing them with others who will. Here's a resolution embodying that strategy that anyone is welcome to borrow or adapt.

Resolved:

1. International investors have co-operated through a united front - the IMF, the World Bank, the G-7/8, and their minions. But they have required debtor countries to negotiate with them one by one.
2. The effect is a drastic imbalance of power that has devastated both poor countries (Less Developed Countries or LDCs) and industrialising ones (Newly Industrialised Countries or NICs).
3. While debtor country governments and elites have too often co-operated with foreign investors for their own enrichment, Argentina has shown that popular movements can force policies to change. But governments that abandon neo-liberal policies face the threat of devastating reprisals from the creditors cartel. The solution is debtor solidarity.
4. We demand that the creditors and those who represent them, including the IMF, the World Bank, and the G-7/8, agree to bargain with debtor countries collectively.
5. We will campaign for debtor governments to develop a united front with each other and with popular movements to press this demand.
6. We will campaign for them to back this demand with the threat of a joint moratorium on debt payments. Such a moratorium should continue until the creditors and their representatives agree to negotiate with the debtor nations, in consultation with popular representatives, on an agenda that includes the following:

Capping the percentage of export earnings that can be required for debt service. This is essentially a way of refusing to run debtor countries economies to service their debts rather than to meet the needs of their people.

Eliminating loan conditionalities that prevent countries from expanding domestic markets, providing credit for their farmers and businesses, and using what resources they have to develop their own economies rather than paying interest to the global rich.

Cancelling the debt of the poorest countries.

Providing international support for nationally-imposed "capital controls" that limit the flow of speculative capital into and out of countries.

Reducing the power of the IMF and other international financial institutions and substituting a system of overlapping organisations representing particular regions and particular functions, such as environment and health, coordinated through the UN system.

Replacing IMF "rescue operations" with an insolvency mechanism for indebted countries, with arbitration panels representing both debtors and creditors, which would take into account the need for social safety nets to protect a minimum of human dignity of the poor.

Implementing an international "Tobin Tax" on flows of speculative "hot money" to reduce international financial volatility and provide resources for poorer countries.

Such an idea is already in the wind, promoted by groups like Jubilee South, whose South-South Summit Declaration stressed "the need for collective action among the South" and the formation of a strategic alliance to unite on issues like "debt repudiation." Similarly, representatives of popular organisations in 13 African countries meeting in Lusaka, Zambia, called for "collective repudiation of illegitimate foreign debt payment" and "linking our arms across the borders" to create "pressure on our leaders to establish a Debtors' Cartel."

Next steps can be as simple as adding such debtor country co-operation to local and national movement programmes; including it in the demands of mass actions opposing structural adjustment; and injecting it into election campaigns, demanding that parties claiming to oppose IMF policies pledge such international co-operation.

Such an approach also provides a natural linkage to workers in the North. IMF conditionalities forced countries such as South Korea, Brazil and Russia to export manufactured goods at rock-bottom prices based on depression-level wages. This has contributed substantially to mass layoffs and unemployment, especially in US manufacturing. A joint attack on structural adjustment-style policies and support for growth driven by domestic demand in Third World countries could serve as the basis for a powerful alliance between First World labour and a wide range of forces in the Third World.

Even the threat of a concerted default is a financial atom bomb; brandishing it might change the entire dynamics of global financial relations.

THE SECOND WORLD SOCIAL FORUM PORTO ALEGRE,

January 29 - February 5 2002

CALL OF SOCIAL MOVEMENTS RESISTANCE TO NEO-LIBERALISM, WAR AND MILITARISM: FOR PEACE AND SOCIAL JUSTICE

In the face of continuing deterioration in the living conditions of people, we, social movements from all around the world, have come together in the tens of thousands at the second World Social Forum in Porto Alegre. We are here in spite of the attempts to break our solidarity. We come together again to continue our struggles against neo-liberalism and war, to confirm the agreements of the last forum and to reaffirm that another world is possible.

We are diverse - women and men, adults and youth, indigenous peoples, rural and urban, workers and unemployed, homeless, the elderly, students, migrants, professionals, peoples of every creed, colour and sexual orientation. The expression of this diversity is our strength and the basis of our unity. We are a global solidarity movement, united in our determination to fight against the concentration of wealth, the proliferation of poverty and inequalities, and the destruction of our earth. We are living and constructing alternative systems, and using creative ways to promote them. We are building a large alliance from our struggles and resistance against a system based on sexism, racism and violence, which privileges the interests of capital and patriarchy over the needs and aspirations of people.

This system produces a daily drama of women, children, and the elderly dying because of hunger, lack of health care and preventable diseases. Families are forced to leave their homes because of wars, the impact of "big development," landlessness and environmental disasters, unemployment, attacks on public services and the destruction of social solidarity. Both in the South and in the North, vibrant struggles and resistance to uphold the dignity of life are flourishing.

September 11 marked a dramatic change. After the terrorist attacks, which we absolutely condemn, as we condemn all other attacks on civilians in other

parts of the world, the government of the United States and its allies have launched a massive military operation. In the name of the "war against terrorism," civil and political rights are being attacked all over the world. The war against Afghanistan, in which terrorists methods are being used, is now being extended to other fronts. Thus there is the beginning of a permanent global war to cement the domination of the US government and its allies. This war reveals another face of neo-liberalism, a face which is brutal and unacceptable. Islam is being demonised, while racism and xenophobia are deliberately propagated. The mass media is actively taking part in this belligerent campaign which divides the world into "good" and "evil". The opposition to the war is at the heart of our movement.

The situation of war has further destabilised the Middle East, providing a pretext for further repression of the Palestinian people. An urgent task of our movement is to mobilise solidarity for the Palestinian people and their struggle for self-determination as they face brutal occupation by the Israeli state. This is vital to collective security of all peoples in the region.

Further events also confirm the urgency of our struggles. In Argentina the financial and economic crisis caused by IMF structural adjustment and mounting debt precipitated a social and political crisis. This crisis generated spontaneous protests of the middle and working classes(repression which caused numerous deaths), failure of governments, and new alliances between different social groups. With the force of "cacerolazos" and "piquetes," popular mobilisations have demanded their basic rights of food, jobs and housing. We reject the criminalisation of social movements in Argentina and the attacks against democratic rights and freedom. We also condemn the greed and the blackmail of the multinational corporations supported by the governments of the rich countries.

The collapse of the multinational Enron exemplifies the bankruptcy of the casino economy and the corruption of businessmen and politicians, leaving workers without jobs and pensions. In developing countries this multinational engaged in fraudulent activities and its projects pushed people off their land and led to sharp increases in the price of water and electricity.

The United States government, in its efforts to protect the interests of big corporations, arrogantly walked away from negotiations on global warming, the antiballistic missile treaty, the Convention on Biodiversity, the UN conference on racism and intolerance, and the talks to reduce the supply of small arms,

proving once again that US unilateralism undermines attempts to find multilateral solutions to global problems.

In Genoa the G8 failed completely in its self-assumed task of global government. In the face of massive mobilisation and resistance, they responded with violence and repression, denouncing as criminals those who dared to protest. But they failed to intimidate our movement.

All this is happening in the context of a global recession. The neo-liberal economic model is destroying the rights, living conditions and livelihoods of people. Using every means to protect their "share value," multinational companies lay off workers, slash wages and close factories, squeezing the last dollar from the workers. Governments faced with this economic crisis respond by privatising, cutting social sector expenditures and permanently reducing workers' rights. This recession exposes the fact that the neo-liberal promise of growth and prosperity is a lie.

The global movement for social justice and solidarity faces enormous challenges: its fight for peace and collective security implies confronting poverty, discriminations, dominations and the creation of an alternative sustainable society.

Social movements energetically condemn violence and militarism as a means of conflict resolution; the promotion of low intensity conflicts and military operations in the Colombia Plan as part of the Andes regional initiative, the Puebla Panama plan, the arms trade and higher military budgets, economic blockades against people and nations especially against Cuba and Iraq, and the growing repression against trade unions, social movements and activists.

We support the trade unions and informal sector worker struggles as essential to maintain working and living conditions, the genuine right to organise, to go on strike, to negotiate collective agreements, and to achieve equality in wages and working conditions between women and men. We reject slavery and the exploitation of children. We support workers struggles and the trade union fights against casualisation, sub-contracting of labour and lay offs, and demand new international rights for the employees of the multinational companies and their affiliates, in particular the right to unionise and space for collective bargaining. Equally we support the struggles of farmers and peoples organisations for their rights to a livelihood, and to land, forests and water.

Neo-liberal policies create tremendous misery and insecurity. They have dramatically increased the trafficking and sexual exploitation of women and children. Poverty and insecurity creates millions of migrants who are denied their dignity, freedom, and rights. We therefore demand the right of free movement, the right to physical integrity and legal status of all migrants. We support the rights of indigenous peoples and the fulfilment of ILO article 169 in national legal frameworks.

The external debt of the countries of the South has been repaid several times over. Illegitimate, unjust and fraudulent, debt functions as an instrument of domination, depriving people of their fundamental human rights with the sole aim of increasing international usury. We demand unconditional cancellation of debt and the reparation of historical, social, and ecological debts. The countries demanding repayment of debt have engaged in exploitation of the natural resources and the traditional knowledge of the South.

Water, land, food, forests, seeds, culture and people's identities are common assets of humanity for present and future generations. It is essential to preserve biodiversity. People have the right to safe and permanent food free from genetically modified organisms. Food sovereignty at the local, national, regional level is a basic human right; in this regard, democratic land reforms and peasant's access to land are fundamental requirements.

The meeting in Doha confirmed the illegitimacy of the WTO. The adoption of the "development agenda" only defends corporate interests. By launching a new round, the WTO is moving closer to its goal of converting everything into a commodity. For us, food, public services, agriculture, health and education are not for sale. Patenting must not to be used a weapon against the poor countries and peoples. We reject the patenting and trading of life forms. The WTO agenda is perpetuated at the continental level by regional free trade and investment agreements. By organising protests such as the huge demonstrations and plebiscites against FTAA, people have rejected these agreements as representing a recolonisation and the destruction of fundamental social, economical, cultural and environment alrights and values.

We will strengthen our movement through common actions and mobilisations for social justice, for the respect of rights and liberties, for quality of life, equality, dignity and peace. We are fighting for:

- democracy: people have the right to know about and criticise the decisions of their own governments, especially with respect to dealings

with international institutions. Governments are ultimately accountable to their people. While we support the establishment of electoral and participative democracy across the world, we emphasise the need for the democratisation of states and societies and the struggles against dictatorship.

- the abolition of external debt and reparations.
- against speculative activities: we demand the creation of specific taxes such as the Tobin Tax, and the abolition of tax havens.
- the right to information
- women's rights, freedom from violence, poverty and exploitation.
- against war and militarism, against foreign military bases and interventions, and the systematic escalation of violence. We choose to privilege negotiation and non-violent conflict resolution. We affirm the right for all the people to ask international mediation, with the participation independent actors from the civil society.
- the rights of youth, their access to free public education and social autonomy, and the abolition of compulsory military service.
- the self-determination of all peoples, especially the rights of indigenous peoples.

Porto Alegre, Brasil

4 February 2002

DEFINING TERRORISM

By Phillip Cryan

"Terrorism" may be the most important, powerful word in the world right now. In the name of doing away with terrorism, the United States is bombing Afghanistan and talking about possible attacks elsewhere. Political leaders from many countries are at once declaring support for the new US war and seeking to re-name their own enemies as "terrorists."

The defined enemy of the US military campaign has not, however, been just the people responsible for the September 11 attacks, but "terrorism" in general. The US has declared a "War on Terrorism" - a war which also includes as enemies, as President Bush has made clear since his first public address on the afternoon of the 11th , "all those who harbour terrorists." What exactly do these words, "terrorism" and "harbouring," mean? What definitions are we using?

Legal definition: seeking international consensus

The difficulty of answering this question was stated concisely in a recent New York Times article: "immediately beyond al'Qaeda, the high moral condemnations of global terrorism rapidly become relative, and the definition blurred." The international community has been actively seeking consensus on the definition of "terrorism" for many years, to no avail. While 12 separate international conventions related to terrorism have been signed, the more fundamental issue of creating a comprehensive, binding international convention against terrorism has been set aside, after repeated efforts, as practically unresolvable. As the UN puts it, "the question of a definition of terrorism has haunted the debate among states for decades."

One of the points of heated contention in this debate has been whether the term "terrorism" should apply to the actions of states in the same way that it applies to the actions of non-state groups. It's easy to see why this question would be so contentious, whatever one's overall view of the Israeli/Palestinian conflict, for example, it's pretty easy to admit that unjustifiable acts of terror and murder have been committed by both sides.

Since international consensus has been so difficult to reach, for the purposes of this brief discussion of terrorism and "harbouring", I'll use the US FBI's definition: "Terrorism is the unlawful use of force or violence against persons or property to intimidate or coerce a government, the civilian population, or any segment thereof, in furtherance of political or social objectives." How does such a definition line up with the goals and strategies of the emerging "War on Terrorism"? How does a definition of terrorism, such as the FBI's, get applied? Who has the authority to judge what counts as "terrorism" and what doesn't? Is there a level playing field, internationally, for the persecution of terrorists?

President Bush has indeed stated, in his address to Congress, that: "Every nation, in every region, now has a decision to make: either you are with us, or you are with the terrorists." Is our government in fact equating its judgments, policies, and military actions with the meting out of God-like "infinite justice"? If so, what kind of moral blamelessness do we ground such authority in?

A brief review of some US political and military interventions over the last few decades reveals just how far we are - sadly, tragically - as a nation from having the kind of virtue and integrity required to wage such a war with a clear conscience and certainty of purpose. Following the FBI definition, our government has repeatedly, in country after country, used "force or violence" "unlawfully," "to intimidate or coerce a government, [a] civilian population, or [a] segment thereof," in order to achieve "political or social objectives."I will mention only a few examples.

Terrorism and "harbouring" of terrorists by the US

US intervention in Nicaragua provides an astounding, but by no means extraordinary, example. First, some background: by 1934, when the authoritarian Somoza regime was established, the US had already occupied the country militarily on at least four different occasions, established training schools for right-wing militia, dismantled two liberal governments, and helped to orchestrate fake elections. In 1981, the CIA began to organise the "Contras" - many of whom had already received training from the US military as members of the Somozas' National Guardsmen - to overthrow the progressive Sandanista government. In other words: the CIA "harboured," recruited, armed and trained the Contras, in order to "coerce" and overthrow a government, and terrorise a people, through violent means ("in furtherance of political [and] social objectives").

US intervention went well beyond "harbouring," however, in this case. In 1984, the CIA mined three Nicaraguan harbours. When Nicaragua took this action to the World Court, an $18 billion judgment was brought against the US. The US response was to simply refuse to acknowledge the Court's jurisdiction. Another striking example of US terrorist activity was the US attack on civilians, the 1986 bombing of Libya, is listed by the UN's Committee on the Legal Definition of Terrorism as a "classic case" of terrorism - on a short list that includes the bombing of PAN AM 103, the first attempt made on the World Trade Centre, and the bombing of the Oklahoma City Federal Building The rationale provided for many of these interventions - in those case where a rationale was in fact provided - was the "war on Communism."

Double standards

US officials successfully pressured the UN to impose sanctions on Libya for its initial refusal to extradite Libyan agents implicated in the PAN AM 103 bombing; but they (US officials) have consistently refused to extradite US citizens - all of whom have ties to the CIA - charged with acts of terrorism in Costa Rica and Venezuela (including blowing up a Cuban airliner in 1976).

The double standards at play, the hypocrisy and bad faith involved, in calling for the world to decide whether it is "with us" or "with the terrorists" should by now be fairly evident. To use President Bush's terms, our nation has - tragically - in reality championed "fear" and suppressed "freedom" in a great many countries, for millions of people. We have been directly responsible for acts of terrorism, and for the "harbouring" of terrorists, on an almost unimaginable scale in terms of human death and the creation of fear.

The lesson: lines of distinction between "good" and "evil" are dramatically more blurred and complex than President Bush, Secretary Rumsfeld, and most voices in the media seem to want us to think. Again, this brief outline of a piece of recent history complicates the current situation enormously: how can Hussein be "evil" and "a terrorist," and we "Good" and the world's defenders of "freedom," if we funded him through many of the atrocities he's committed, fully conscious that he was committing them? As with Afghanistan, a short memory on our part, together with a preference for black-and-white thinking, are likely to prove responsible for yet more suffering and violence now and down the road.

On October 4, Amnesty International published a report on the tightening of security in the wake of September 11. In the report, Amnesty observed that "some of the definitions of terrorism under discussion are so broad that they could be used to criminalise anyone out of favour with those in power." We must be careful with definitions; we must know what we mean. When asked to define "terrorism," Sir Jeremy Greenstock, the British diplomat charged with leading UN efforts to combat terrorism, replied: "What looks, smells, and kills like terrorism is terrorism." It is, simply, not that simple. Such oversimplifications and appeals to "obviousness" are not only inaccurate but profoundly dangerous, as the Amnesty International report suggests. And clear delineation of definitions will become increasingly complicated and difficult to achieve over time, as more governments and special interests seek to advance the policies they favour by calling them "attacks on terrorism."

Who are we, the United States, in the end, to tell the world what Good and Evil are, after our history of unlawful violence, double standards, and outright engagement in acts of terrorism? President Bush's explanation for anti-US sentiment - "These people can't stand freedom" - is ludicrous, deplorable: it grotesquely misrepresents the realities of current world politics and the history of 20th century US foreign policy. In light of that history, and of the fact that the definition of "terrorism" has been debated without resolution for decades, it is our responsibility as US citizens and as human beings to think carefully, long and hard and well, about this war, to notice and question each use of the word "terrorism" that we come across and to educate ourselves, and one another, about the reality of suffering in the world in which we live - its causes, and ways to uproot them.

ANNOUNCEMENT BY THE CHAIRMAN OF THE JURY AFRICA'S 100 BEST BOOKS OF THE 20 CENTURY

Professor Njabulo Ndebele

Tuesday 18 February 2002. Golden Tulip Hotel. Accra

The jury to select Africa's 100 best books of the twentieth century met in Accra, Ghana and have completed their task.

They considered over 500 nominations, from the original 1 521 nominations proposed from many sources all round the world. Prior to the meeting in Accra, members of the jury had already reduced this list, via electronic discussion, to a more manageable number. An initial meeting to set the guidelines for the process of selection was held in Harare, Zimbabwe in August 2001.

The idea of a list of Africa's 100 best books of the 20th century came from the celebrated author Ali Mazrui at the Zimbabwe International Book Fair in 1998. His vision was to find a way to direct the spotlight of the world on the achievements of African writers who have had their works published in the 20th century.

The jury, whose names are appended below, comes from 13 countries representing all the regions of Africa as well as other continents. Each member has expertise in African writing and publishing generally and specifically in the areas of the different categories demanded of this project.

The books considered were in three categories: children's writing, non-fiction/scholarship and creative writing, which further divides into short stories, novels, poetry and drama. Books were considered in Afrikaans, Arabic, English, French, Gikuyu, Portuguese, Sesotho, Shona, Swahili, IsiXhosa, Yoruba and IsiZulu.

All the nominated books were subjected to rigorous criteria and had to meet some, if not all, of these. Criteria included assessment of quality, ability of a book to provide new information or new insight, continuing contribution to debate, extent to which a book breaks boundaries, and impact through such matters as popularity, sales and public influence. The jury was particularly

concerned to ensure in the final list a balance of regional representation, gender, historical spread and genres of writing.

For all the 15 members of the jury, their arguments, their exchange of information and their final decisions have been exhilarating as well as a learning process. Decisions of the jury were largely arrived at through unanimity after rigorous debate. The process that produced this list has not been an easy one and the difficult options that the jury had to face cannot be demonstrated in a short press statement as this. It was a slow considered and demanding process that finally led to the jury's choice of the best 100 titles of African writing in the 20th century. From this list, the jury also decided on the best 12 African books of the 20th century.

We believe it is time to celebrate a century of superb achievement in African creative writing, scholarship and children's literature. We believe that this list will provoke debate and lead to republication, translations and curriculum inclusion.

We can look forward to the next 100 years of an Africa brimming with creative energy - across the entire continent.

*Special Commendation: *UNESCO General History of Africa vol. I -VIII*

This work received a special commendation from the jury both for the wealth of new information it marshals as well as the new interpretations it brings to bear on African history. Published over nearly two decades from 1981 to 2000, it has established itself as \an indispensable source on all periods of African history.

It was not included in the list of Africa's 100 best books only because it falls outside the jury's terms of reference in that it is edited, and includes chapters by Non-Africans. The jury noted however that the International Advisory Committee for the UNESCO General History of Africa was two-thirds African in its composition and that the editors of each of the volumes were African.

Africa's 100 Best Books Of The 20th Century

Top Twelve Books				
Name	**Sex**	**Country**	**Title**	**Publisher**
1. Asare, Meshack	Male	Ghana	Sosu's Call	Su-Saharan
2. Achebe, Chinua	Male	Nigeria	Things fall apart	Heinemann
3. Ba, Mariama	Female	Senegal	Une si longue lettre (So long a letter)	NEA
4. Couto, Mia	Male	Mozambique	Terra Sonambula	Ed. Caminho
5. Dangarembga, Tsitsi	Female	Zimbabwe	Nervous Condition	Women's Press & Seal Pres
6. Diop, Cheik Anta	Male	Senegal	L'Origine africaine de la civilisation (The African Origin of Civilisation, Myth or Reality)	Presence Africaine
7. Djebar, Assia	Female	Algeria	L'Amour, la Fantasia	J.C. Lattes
8. Mahfouz, Naguib	Male	Egypt	The Cairo Trilogy	
9. Mofolo, Thomas	Male	Lesotho	Chaka	Morija Sesuto ook Depot
10. Senghor, Leopold Sedar	Male	Senegal	Oeuvre Poetique	Seuil
11. Soyinka, Wole	Male	Nigeria	Ake: The Years of Childhood	Rex Collings
12. Wa Thiongo, Ngugi	Male	Kenya	A Grain of Wheat	Heinemann

BOOKS

BERNARD LIETAER, THE FUTURE OF MONEY, CENTURY, 2001, *371 pages*

HERNANDO DE SOTO, THE MYSTERY OF CAPITAL; Why Capitalism Triumphs in the West and Fails Everywhere Else, BLACK SWAN, 2001, *276 pages*

SOCIALLY RESPONSIBLE CAPITALISM

There are a number of books in the market since the last decade of the last century which seem to claim that for those who dream of an alternative to the interest-driven economy that the West has burdened the world with, there is something which can be done to achieve socially responsible capitalism. Such publications have moved from the initial expressions of hope and the aspiration by former Marxists and socialists for the restoration of communism sometime in the future.

At the same time that these types of publications are appearing, another type of publication is making its presence felt. These books are more interested in getting the third world to be more thoroughly capitalistic, a-la-Western World, by doing exactly what the West did, what, to some extent, Japan along with the Asian Tigers, also did. What does one recommend, given these two positions, when deciding the course to be taken by countries that need to develop? THE FUTURE OF MONEY by Bernard Lietaer represents the first position while THE MYSTERY OF CAPITAL: WHY CAPITALISM TRIUMPHS IN THE WEST AND FAILS EVERYWHERE ELSE by Hernando de Soto represents the second position.

THE FUTURE OF MONEY envisages a time when there would be at least two forms of money - the universally internationally acceptable money that drives the interest-driven economy. This interest-driven economy would be virtually restricted to finance capitalism. Whatever inflation this money might pick up will not percolate to the ordinary people on the streets whose use of money has nothing to do with buying and selling currencies, bonds, shares and futures.

This currency can go by internationally accepted names such as "Euro" or even "Afro" as the case may be.

The second type of money would service the ordinary basic exchange between people who need to have a simple and straightforward instrument of barter for goods and services on a local and communal level. Such money could be given local or communal names such as "Langa" or "Clifton". This way it would be possible for people to conduct simple exchange without subjecting themselves to the same stresses that afflict international finance.

THE MYSTERY OF CAPITAL: WHY CAPITALISM TRIUMPHS IN THE WEST AND FAILS EVERYWHERE ELSE insists that the reason that third world countries have not been able to make a success of capitalism is because they have done nothing to clarify their land holding laws making it possible for people to buy and sell land, use land as collateral for other purchases. De Soto insists that revolutionary lawyers specialising in property laws as well as a crusading president are the instruments to make this change possible in any third world country.

First of all, it is difficult enough to find lawyers in the kind of numbers that they exist in western countries in our countries in Africa. It is even more difficult to find revolutionary lawyers. They are revolutionary, they would not practice law in the present circumstances in which law is practiced. As for a crusading president, maybe we will see one or two in Africa in the future.

Without prejudice to Hernando de Soto's operations in Peru, it would seem that it is rather late in the day to attempt to create capitalism the same way it was created in the West. Are we not too far gone in the day to start from such beginnings? Additionally, land has always played a role different from what De Soto has been advocating.

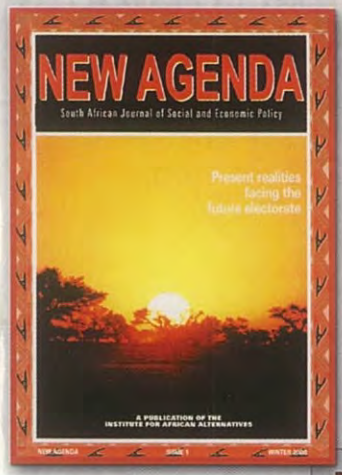
Attention has also been directed to the injunctions of Christianity and Islam in terms of accepting or rejecting interest in financial deals. Somehow, Christianity turned away long enough for the interest-driven capitalism we have today to develop. Islam is still a little behind and Islamic countries, beginning with Pakistan, have attempted to found a financial and banking system that does not depend on interest. More than half a century since the beginning of this pursuit, there is little to show to a world eager to embrace a new way to do business.

It would seem though that our spending culture (of whatever we have, especially money) to show off to others, seems to be the devil of our capitalist ambitions. Recently, a domestic worker spent seven thousand rand for the initiation of a matriculating son but could not raise one thousand two hundred rand for the young man to register at a technikon!

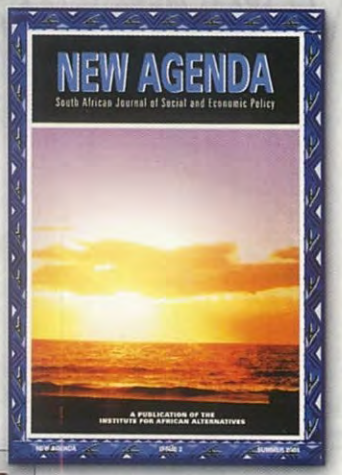
Which takes us back to the idea of a two-fold money system, one for macro and the other for micro economic needs. It would be of interest to ask our readers to respond to the question of the possibility of a socially responsible capitalism.

Kole Omotoso

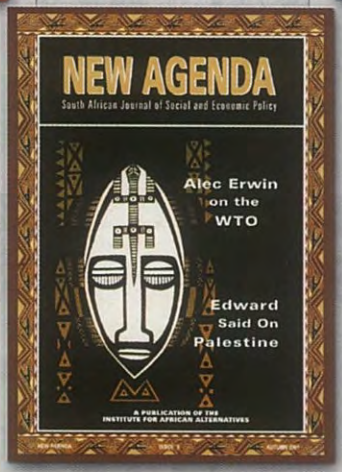
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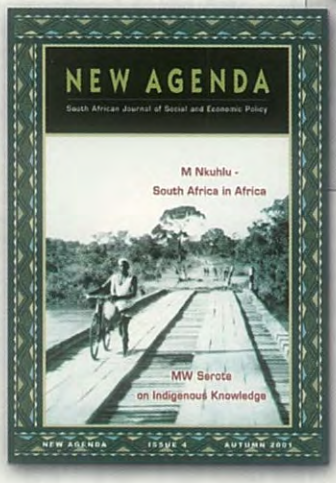


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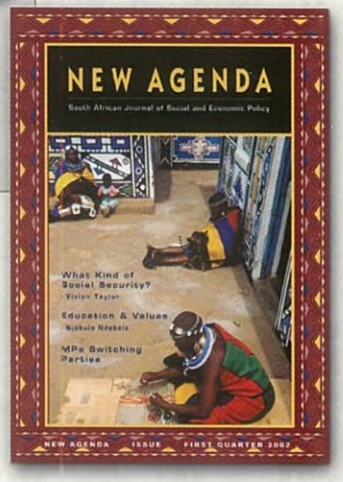


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