Lecture

The RDP, GEAR and all that: reflections ten years later[1]

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Let me begin by congratulating the editorial board of *Transformation* on their remarkable achievement in bringing out the 60th issue of the journal. Over the past 20 years, the journal has made a vital contribution to left and progressive thought in South Africa, and it is one of only three I can think of which survived the funding and personnel crises of the mid-90s (the other two being *Agenda* and the *SA Labour Bulletin*). What is perhaps distinctive about *Transformation* is its reliance on unpaid labour! I particularly want to mention Bill Freund and Gerry Maré, the two surviving founding editors who have been part of the enterprise for more than 20 years, and who must have each invested in the journal millions of rands worth of sweat equity. I know from my own personal observation that from the late-80s to the mid-90s the two of them did the bulk of the slog-work needed to get the issues out: I salute them for sticking with it and, I'm sure, still contributing as much as ever.

One of *Transformation*'s important contributions over the years has been as a major arena for economic policy debate. In the early 1990s, it was crucial in making accessible the debate within the democratic movement about development and growth strategies for the post-apartheid economy. And in the mid- to late-90s, *Transformation* published several articles which provided an intellectual basis for what became the conventional 'left' critique of the GEAR policy, and particularly the view of GEAR as a 'neo-liberal' framework which reflected a sharp break with the then-existing policy that embodied the progressive principles and strategies of the RDP. Of course, overshadowing the arguments about substantive differences between the RDP and GEAR was the anger felt by progressives in the ANC alliance about their marginalisation from the *process* through which the GEAR policy was formulated. This anger fuelled the intense and vitriolic debate about GEAR which continued for several years and resulted in deep, apparently permanent, divisions within the progressive democratic movement. The legacy of the abrupt and unilateral loss of progressives' 'voice' in formal policy processes remains at the centre of alliance politics today. As I understand it, a major reason for the support offered by the left within the ANC alliance for Jacob Zuma's presidential aspirations, at least up until his rape charge, was the belief – perhaps hope – that a Zuma-led government would offer more space in policy discussion to left and progressive voices than has been possible under Thabo Mbeki.

Since it is just a few weeks short of ten years since the GEAR policy was published, it made sense to me to return this evening to 'the RDP, GEAR and all that' and reflect on the lessons that emerge, with the perspective of the passage of time, from that episode. I should mention of course – though most people here will know – that I was one of the 'technical team' that drafted the GEAR document for government, though rather than the 'architect' of GEAR that I've sometimes been labelled, I was in reality more of a 'bricklayer' or 'general labourer'.

To begin with, I want to make three critical points about the conventional left view of GEAR, ie that it represented a sharp break from RDP policies. The standard response to this position from GEAR advocates within the alliance is that all the positions advanced in GEAR are to be found in the RDP. This is correct as far as it goes, since the RDP's macroeconomic policy section certainly takes a clear stand against macroeconomic profligacy, as was characteristic of all ANC policy statements from 1990. But of course GEAR places the macroeconomic dimension at the centre of policy, as distinct from its position in the RDP, where it was almost an afterthought. But more important than the RDP's formal position on this is, in my view, the fact that the key macroeconomic policies put in place *during* the RDP's period of supposed dominance represented positions more commonly associated with GEAR's so-called 'neo-liberalism'. It is well-known, or should be, that a harsh interest rate policy was adopted from 1990 to counter inflation, and fiscal stringency – including deficit targets – from 1994. These policies may be written off to the retention in their positions of apartheid-regime Reserve Bank Governor and Finance Minister. The process and impact of trade liberalisation have also been much analysed, and of course unfolded well before GEAR. Less well-known, or remarked upon, is the fact that *financial* liberalisation policies, re-integrating South Africa's capital markets with those of the global economy, were also formulated – and in some cases legislated – before the new government's accession to power. The resultant opening up of the foreign exchange market, the banking system and the stock exchange was arguably the most significant shift in the macroeconomic policy framework throughout the period: despite, or because of, the attraction of large inflows of foreign capital, this has been the major factor behind the volatility of the rand which has destabilised growth since then, and would undoubtedly have destabilised growth even had the RDP remained 'in force'.

The timing, sequencing and management of the processes putting these monetary, fiscal and financial market policies in place was wrong, even disastrous, from the perspective of economic growth. Yet all this happened well before the GEAR process even started, and cannot be seen as resulting from GEAR. It happened at a time when the RDP was supposedly the overarching policy framework, when the left certainly had a voice in policy. Yet it seems little or nothing was said or done to oppose their implementation – it is not clear that the left (or most others in the ANC) was even aware it was happening.

Alternative positions – particularly with respect to financial liberalisation – were in some sense 'unthinkable', because the economy had just experienced several years of stagnation and stop-go growth cycles resulting exactly from a closed financial system and the absence of foreign capital inflows due to sanctions, disinvestment and so on. The need for capital inflows to support growth had been strongly argued by the ANC for years – could it now turn round and credibly propose growth policies *without* encouraging and enabling inflows? Should it have done so? In both cases, the answer must surely be no. Even had it been willing to pay the political price for such a contradictory position, straightforward macro analysis suggests that it would have been unfeasible since a closed capital account would likely have required a fixed exchange rate, which was unsustainable given the country's low level of forex reserves at the time. Just as important, immediately the new policies and regulations were implemented in 1994 and 1995, the costs (political and economic) of reversal were far higher than the cost would have been of maintaining the *status quo*.

So GEAR did not introduce any fundamentally new policies into the macroeconomic policy regime, and a 'sharp break' with the RDP in this sense doesn't hold. (It is notable that the major innovation in this respect post-

1996, inflation targeting, is not even mentioned in the GEAR document). So, secondly, what was GEAR's distinctive contribution? Essentially, there was only one new (macro) thing in GEAR – the 'wrapping paper'. What I mean is that GEAR essentially re-packaged then-existing macroeconomic policy in an effort to re-affirm, for foreign and domestic investors, the ANC's commitment to these policies: in other words, achieve policy 'credibility' by persuading these investors that it would not in fact reverse its policy stance once they had committed to investing in South Africa.

But GEAR reflected a naïve understanding of credibility insofar as it aimed to achieve rising investment flows in the short-term. Credibility – in this sense – derives from one of two strategies: either it is 'bought', which achieves rapid results at the cost of fixing one's exchange rate very firmly to a strong currency, or it is 'built', which requires sticking to a policy stance over a *long* period. The GEAR strategy opted for the latter, consistent with the existing macro approach, but this approach contradicted the short-run (five-year) time horizon for its explicit growth objectives.

Of course, the other side of the 'credibility' coin was the exclusion of voices from within the alliance from the policy discussion – the 'insulation' of policy from popular pressures was entirely in line with the conventional wisdom at the time. But the conventional wisdom had not taken account of the possibility of strong, vocal and indefatigable opposition from *within* the governing party. The attempt to insulate had the unintended consequence of making GEAR in a sense a more significant intervention in alliance politics than it was in macroeconomic policy. And its significance within the alliance also turned out to be its fatal flaw. The persistent infighting within the alliance meant that investors remained uncertain which grouping – pro- or anti-GEAR – would control future policy, and so credibility was elusive and has remained so. This is reflected in the continuous uncertainty about capital flows and the exchange rate, notwithstanding the significant inflows and strong rate over the past two to three years.

So I would argue that even though the ANC's base and its allies, and the left more generally, may have had little say in the *formulation* of GEAR in 1996, they did have a major role in its *implementation* and specifically its lack of success. Contrary to the argument that GEAR reflected the limits of popular democracy in SA, a longer-run and more comprehensive analysis suggests the possibilities – macroeconomic policy without popular support is likely to fail.

What then are the lessons from the GEAR episode? The first emerges from this last point: policy is not just about formulation but also about implementation, and policy 'voice' depends not on interest groups having desks in the technocrats' back office, but on their power, and the principles and positions they advocate. Therefore looking to support a populist whose principles are unclear, in the hope of winning some room in policy, is a risky strategy.

Second is the issue of class alliances. The government has learned its lessons from GEAR, if the new ASGISA strategy is any guide. ASGISA recognises that over-reliance on the credibility of policy to woo investors is a risky macroeconomic strategy, even though ASGISA's macroeconomic approach remains 'more of the same'. But the politics of ASGISA represent a very strong contrast to GEAR: the *process* has to a considerable extent reflected the idea of shared growth embodied in the policy's name, with wide consultation before its general release, and much detailed formulation work still underway in the wake of consultation. In other words, the ASGISA process aims to produce policy stability and certainty by building broad-based support. In this respect it is significant that the two economic sectors identified as the strategy's top priorities are both labour-intensive *export* sectors – tourism and business process outsourcing.

ASGISA is structured around the 'dual economy' rhetoric which the President has taken to using over the past three years, to emphasise government's focus on growth for poverty reduction. Representing South Africa as a dual economy has been criticised by many, including myself, most particularly for ignoring the causal interactions between the 'two economies' – in other words, the immiserising effects on those at the bottom of the income distribution of growth at the top end, in the 'first economy'. But neither theoretical or empirical critique nor formal political links will change the policy approach and make possible better *quality* growth to address the poor's dilemma. As the GEAR experience emphasised, only intervention based on the power and interests of a broad cross-class alliance leads to policy success or failure. Comparative and historical experience suggests that a sustainable redistributive strategy rests on an alliance which is not limited to the working and non-working poor, but includes also *middle-class* groupings.

ASGISA aims to build such a broad-based alliance cutting across both vertical (class) distinctions as well as horizontal distinctions such as race, ethnicity and the like. If the left is to advance from defensive expressions of its power such as those which enabled it to stall the progress of GEAR, to more positive activity shaping the development trajectory, it must also engage with and seek to mobilise – around economic interests – a broad spectrum of society. This brings me to the issue of BEE. The emergence of a large and diverse black middle class has, as was predictable, been the most significant change in the domestic social structure since 1994, and the role of this class is the pivotal political economy issue we face today. Yet, interestingly, on the face of it, there seems little link between BEE and GEAR. GEAR did not explicitly address BEE, which seems much more closely in line with the RDP. Yet there are links between GEAR and BEE, and they illuminate the need for the left to develop new substantive approaches to economic development if it is to assume *leadership* of any such alliance.

GEAR focussed on attracting foreign capital to drive the development process, and in this respect reflected scepticism about the capacity of an untransformed (ie white) domestic bourgeoisie to *lead* a non-racial development process in South Africa. (Recall the rhetoric at the time about the 'patriotic' and 'unpatriotic' bourgeoisie). This view of the trajectory of the existing bourgeoisie was I think broadly shared across the national liberation movement. But there was deep division between the views of those who saw the possibility of a transformed South African bourgeoisie able to lead development processes and those who saw no prospect for the latter, with the result that reliance on the state would be necessary. This difference is reflected in an old debate in left thinking about the nature of dependency of poor economies on rich, which links the nature of the domestic bourgeoisie to the issue of international economic integration. The debate has its roots in analysis more than a century ago of the development of capitalism in Russia, from which it moved through Eastern Europe's prospects for industrialisation in the 1930s and the arguments of Raul Prebisch and the structuralist school in Latin America in the 1950s, to the debates between FH Cardoso and AG Frank in Latin America in the 1970s, with Frank's position applied to Africa by Samir Amin. Many South African analysts and activists continue to be persuaded by the Frank/Amin view that poor economies *cannot* develop within the confines of the international economy, and need to 'delink' to overcome their stagnation and deepening backwardness. Others – amongst whom I include myself – had our minds changed during the 1980s as we observed the growing differentiation of what was once called the 'Third World' with several countries succeeding in introducing new dynamics of development and growth.

This debate underlay the differences over economic policy which quickly emerged within the democratic movement after 1990, particularly over how to (re-)engage with the global economy, and persisted through the GEAR process. I cannot pretend to resolve this debate here (or even elsewhere), but I think it is hard to refute the argument that capitalism has in many respects successfully developed South Africa over the past 80 to 90 years and that the process has been led by the domestic bourgeoisie, *in partnership with* both the state and foreign capital. Through this period, capitalism – and the bourgeoisie – have on several occasions demonstrated their ‘plasticity’, their ability to adapt and reinvent themselves. BEE is yet another example of this quality. This is of course not to suggest that the distribution process has been equitable or satisfactory, but striving for more progressive arrangements within the capitalist structure is politically both possible and necessary today. The implication is that this will require engagement with both the domestic bourgeoisie and with the international economy.

The left needs to develop an ‘open economy’ position which allows for interaction with the global economy. It is somewhat easier today than it was in the early to mid-1990s to imagine progressive possibilities in this respect, partly because of the experience of ‘emerging economies’ with international capital in the interim. Though this has not been a pretty picture, with successive crises starting with Mexico in 1994/5, the Asian crisis of 1997 with meltdowns in Brazil and Russia, and then Argentina in 2001, it has led to a big improvement in policymakers’ understanding of the challenges. In 1996 no-one, least of all in Pretoria, understood very much about this though the Mexican crisis was very recent, but we have all gone through a steep learning curve since, not least because of the rand’s own roller-coaster ride.

Just as important, the left has to engage actively with the process of transforming the bourgeoisie. This is not simply a matter of criticising the narrow basis of BEE initiatives, necessary as this is. Again, a more assertive and constructive approach is needed, and here I would argue that the left, including the labour movement, needs to bite the bullet and promote SMMEs – not the survivalist traders and nano-businesses of the informal sector, but small (probably formal) businesses which have some prospect of growth as firms. These have been deeply neglected by actual policy, as distinct from policy rhetoric, as a result of small business's political weakness. Nonetheless, far more than other elements of the 'black middle class', this group constitutes the best hope for a more progressive outcome not only for BEE but for the transformation of the domestic bourgeoisie. Its political weakness can be overcome only as part of a broader alliance, but unless it begins to grow, there seems to me little prospect for significant employment creation and thus poverty reduction. As I have already implied, this will involve export-orientation, and in this respect the *service* sectors identified by government may not be a bad place to start.

Potential economic development paths, and the requisite policies, are not too difficult to spell out. The really difficult questions as always are political. Does the left have the courage to abandon some of its sacred cows and address the challenges it faces? Or will it continue to rely on narrow sectional approaches, while taking refuge on the leeward side of the ship of state (if that is not too tortured a metaphor)? My instinct, as always, is to take a pessimistic view of the prospects, even while posing the question. The answer will to an important extent be influenced by the positions taken by left intellectuals. For this group – for us – the challenge will be to avert the twin dangers of being submerged by efforts to structure the intelligentsia along race or national lines, or falling prey to over-optimistic populist fantasies about short-term possibilities of change. As a platform for these debates, *Transformation*'s future is as important as its past. I congratulate you all again on achieving this landmark, and look forward to celebrating your century sometime around 2020.

Note

1. Delivered at the launch of the 60th issue of *Transformation*. Durban, May 11, 2006.