

ECONOMIC POLICY IN SOUTH AFRICA – GROWTH PLANS AND GROWTH OBSTACLES

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In 2010 South Africa impressed the world with an almost perfectly organised Football World Cup. Major infrastructure projects and new world-class stadiums impressively demonstrated the investment and mobilisation capacity of the country. South Africa has weathered even the economic and financial crisis relatively well. Negative growth was 1.8 per cent in 2009 and unemployment grew by about one million. In 2010 however, another good three per cent growth is expected, the inflation at four per cent is within the three to six per cent region set by the Central Bank. The rand shows unusual strength against the dollar and the euro, triggered by strong (volatile) capital inflow in the financial market. South Africa is the only African country in the G20, organises the COP17 climate conference in November 2011 in Durban, recently joined the BRICS countries, and is again a non-permanent member of the UN Security Council for 2011/12.

On the other hand, with a Gini-Index of 65 in 2010 South Africa shared with Brazil the leading position in terms of unequal distribution of income. According to the latest UNCTAD report direct foreign investment fell by 78 per cent, while in the region the decline was only 14 per cent.¹ The official unemployment rate is 25.3 per cent, while the actual figure exceeds 40 per cent. According to a study by the Centre for Development and Enterprise (CDE), in larger cities, 2.6 million, that is, 65 per cent of the four million young people between 15 and 24 were



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1 | Cf. "FDI slumps 80 per cent as mining debate deters investors", *The Star – Business Report*, January 19, 2011, 1.

unemployed in 2005.² The proportion of the young people in unemployment between the ages of 15 and 34 was 52.7 per cent, according to the *South Africa Survey 2009/2010* by the South African Institute of Race Relations (SAIRR).³ Partly responsible for this is the deficient educational system with a great number of school dropouts and low standards in, especially, natural sciences. As a result, some much-needed skilled workforce is not or insufficiently available in the labour market.

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The governing party ANC programmatically set its sights on becoming a "Developmental State". However, up to now this has proved to be somewhat of an empty phrase, whose contents have little or contradictory meaning. It is difficult to clearly identify the cornerstones of the desired economic system. By contrast, the *official opposition* Democratic Alliance (DA), in the Open Opportunity Society, is promoting a liberal economic model that, in the face of the present majority, has no chance of being implemented.

DEVELOPMENT OF THE ECONOMIC SYSTEM SINCE THE DEMOCRATIC REBIRTH

Halfway through Nelson Mandela's term, in June 1996, the government of National Unity (ANC, NP, IFP) abandoned the macro-economic Growth, Employment and Redistribution Plan (GEAR).⁴ It replaced the Reconstruction and Development Programme (RDP) established in 1994 that intended to fulfil the basic needs of the poor (water, low-cost-houses, electricity) but also led to a policy change with a negative impact on investor's trust and economic growth. First, it was the trade union federation, the Congress of South African Trade Unions (COSATU), that strongly criticised GEAR, rejecting it as a

2 | Cf. Ann Bernstein (ed.), "South Africa's 'Door Knockers' – Young people and unemployment in metropolitan South Africa", *CDE In Depth*, Nº 8, July 2008.

3 | Cf. South African Institute of Race Relations (ed.), *South Africa Survey 2009/2010*, <http://sairr.org.za/services/publications/south-africa-survey/south-africa-survey-online-2009-2010/employment-incomes> (accessed February 2, 2011).

4 | Department of Finance, Republic of South Africa (ed.), *Growth, Employment and Redistribution. A Macroeconomic Strategy*, in: <http://www.treasury.gov.za/publications/other/gear/chapters.pdf> (accessed February 2, 2011).

liberal concept. At about three per cent, the targeted growth rates remained well below the expectations. Six per cent had been considered prerequisite for reducing the high unemployment. While inflation and budget deficit decreased, between 1996 and 1999, according to the National Labour and Economic Development Institute (NALEDI), 400.000 jobs were lost in the formal sector.⁵ President Thabo Mbeki and the government however retained the programme in the expectation of a long-term economic growth.

GEAR was replaced by the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) in February 2006, with the goal of halving unemployment and poverty by 2014. Six points were identified as factors in preventing higher growth:

- Volatility of the currency,
- Costs, efficiency and capacity of the national logistics system,
- Lack of training and lack of skilled workers,
- Entry barriers, constraints on competition, and lack of investment opportunities,
- Overregulation, in particular with respect to small and medium enterprises (SMEs),
- Deficits of state administration and leadership.

It was an initiative that was to involve the business, trade unions, state-owned enterprises, and all government institutions including ministries.⁶ The programme was complemented one month later by the Joint Initiative on Priority Skills Acquisition (JIPSA), aimed at professional skills, particularly skills in shortage (technicians, engineers).⁷

The challenge to GEAR was the beginning of the waning influence of Thabo Mbeki on the direction of the country's economic policy. Although Mbeki came from the Marxist

5 | Richard Knight, "South Africa: Economic Policy and Development," July 2001, in: <http://richardknight.homestead.com/files/sisaconomy.htm> (accessed February 2, 2011).

6 | South Africa Government Information, Accelerated and Shared Growth Initiative for South Africa (AsgiSA), in: <http://www.info.gov.za/asgisa> (accessed February 2, 2011).

7 | Joint Initiative on Priority Skills Acquisition (JIPSA), in: <http://www.thepresidency.gov.za/docs/final-rep2.pdf> (accessed February 2, 2011).

school, international organisations, the industry and large sections within the ANC saw in Mbeki a guarantee for an open, market-oriented economy. In advance of the 2004 national elections, the ANC initiated a debate about the Developmental State. The concept was part of the election platform, and aimed above all to keep the radical partners, COSATU and the South African Communist Party (SACP) as well as their voters within the "Tripartite Alliance".⁸

The recognition of the African State and Government Director connected with the New Partnership for African Development (NEPAD) to take on more individual responsibility and to thematize the developmental orientation of the African elites from within was attributed to this new debate.

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The party conference in Polokwane in December 2007 fundamentally changed the balance of power within the ANC and the Tripartite Alliance. The more radical and left-leaning portions of the Alliance set the programme and the agenda, and, in Jacob Zuma, elected a popular people's tribune from KwaZulu/Natal as party president. Thabo Mbeki and his entire party leadership were voted out. On 25th September 2008 Mbeki's forced resignation as president followed. In this, he was bowing to the new party leadership, who prompted his resignation. This was followed by an interim government under Kaglema Motlanthe. As party leader – in the ANC-Tradition – Jacob Zuma was leading candidate in the elections on 22th April 2009, in which he was elected president.

In his first State of the Nation address on 17th June 2009 Zuma said that he intended to build a "developmental state", improve public service, and strengthen the democratic institutions.⁹ In his next speech on 11th February

8 | Cf. Roger Southall, "Introduction: Can South Africa be a developmental state?", in: Sakhela Buhlungu et al. (eds.), *State of the Nation, South Africa 2005-2006*, (Cape Town: HSRC Press 2006), xvii-xliv; Peter Meyns, Charity Musamba (eds.), "The Developmental State in Africa – Problems and Prospects: Introduction: Recent Debates on the Developmental State in Africa," *INEF-Report* 101/2010, 7-10; Charity Musamba, "The Developmental State Concept and its Relevance for Africa," in: Peter Meyns, Chrity Musamba (eds.), loc. cit., 11-41.

9 | <http://www.info.gov.za/speeches/2009/09060310551001.htm> (accessed February 2, 2011).

2010 Zuma praised his government and their hard work "to build a strong developmental state".¹⁰ It would be premature to draw any conclusions from the fact that reference to democratic institutions was not made again. It is nevertheless significant that a "performance-oriented state through improved planning" is intended to be established, which, according to his further remarks, is to be responsible for virtually all other sectors, including the economy. It remains an open question where the necessary planning capacity and the appropriate qualifications are envisaged to come from and how these are to be efficiently managed. The private sector as economic actor or the contribution of the economy to the country's development is not mentioned. Likewise missing are comments on the creation of adequate conditions for private business, in particular the development of medium-sized productive enterprises by the state.

The private sector as economic actor or the contribution of the economy to the country's development is not mentioned in Zuma's first State of the Nation addresses.

Before and during the party conference in Polokwane Jacob Zuma made far-reaching promises and concessions to his allies from the left political spectrum, COSATU and SACP and the influential ANC Youth League. In the two State of the Nation speeches and other speeches at a party level or as head of government, far-reaching promises were made. Even two years after taking office there were no visible achievements in the areas of, especially, closing the poverty gap, fighting unemployment and the provision of social and other services (Service Delivery) Zuma came under growing pressure within the ANC to change political direction especially with regard to economics. The cabinet reshuffle of October 2010 consolidated his position. However, the number of government members was again extended by six vice-ministerial positions. When forming the government in June 2009, Zuma had already increased the number of ministers from 28 to 34 and created an additional planning department in the presidential office. In this way, Zuma was able to integrate his internal party critics especially those on the left of the political spectrum. A number of departmental responsibilities were created which were concerned with economic policy and would submit independent plans. Besides the state of the nation,

10 | <http://www.info.gov.za/speeches/2010/10021119051001.htm> (accessed February 2, 2011).

there is the fiscal policy from the Minister of Finance, which sets fiscal policy, the Medium Term Expenditure Framework (MTEF) 2009-2014, the Industrial Policy Action Plan (IPAP) from the Ministry for Trade and Industry, and recently the National Growth Path (NGP) from the Ministry of Economic

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Development. Meanwhile the National Planning Commission, with ministerial rank in the president's office, is working on its first National Plan, containing long-term goals, to be submitted in November this year.¹¹

The NGP¹² published in November 2010 gives the state complete control competence and was heavily criticised by the Opposition and the society in general. The NGP defines virtually no time frames or concrete implementation plans. It remains, in essence, a declaration of intent, such as were partly contained within the GEAR und RDP and AsgiSA and Jipsa. The word "entrepreneur" occurs once in this 35-page document. It completely ignores the three "Dinokeng" scenarios, named after the place near Johannesburg¹³ where they were worked out and discussed in 2009 by 35 respected personalities of different backgrounds. The first scenario ends in decline and disintegration of the country because the leadership is overtaxed, weak and divided, and is unable to solve the most important problems of the people such as poverty, underemployment, security, education, and health. In the second scenario the state assumes the role as leader, managing and strangling private initiative from the business community or civil society. State-led development will however fail due to the state's inability and lack of capacity, and lead to an increasingly authoritarian system. The "Walk Together" scenario is complex, as it involves citizens in the decision-making processes, supports initiatives from civil society and creates stable conditions for economic development. The result is an inclusive society, as the constitution requires, and responsible government. The ANC is not at present taking part in this open dialogue with civil society.

11 | Cf. Anthony Butler, "Sloppy jobs promises set Zuma up for a backlash," *Business Day*, January 28, 2011, 11.

12 | <http://www.info.gov.za/view/DownloadFileAction?id=135748> (accessed February 2, 2011).

13 | <http://www.dinokengscenarios.co.za> (accessed February 2, 2011). Among the initiators was anti Apartheid activist Ramphela Mamphele and Graca Machel, wife of Nelson Mandela.

Despite critical comments even from the government alliance Jacob Zuma asked the party committees and all departments to begin implementation of the NGP. On January 8th, in his speech at the 99th ANC party conference in Polokwane he declared the year 2011 the “year of job creation through meaningful economic transformation”.¹⁴ The primary instrument for achieving this objective is the NGP, intended to create sustainable employment (decent work), as required by the new labour laws that came into force in December 2010. Confusion arose as, at the party meeting from 12th to 14th January 2011, sections of the ANC took the position that any work is better than no work.¹⁵ The question of harmonizing all these plans was not one Zuma tackled.

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(Mail & Guardian)**

The chief editor of the weekly *Mail & Guardian*, Nic Dawes, commented on the launch of the NGP in November 2010: “As of this week, South Africa has three economic policies – or is it four? And that’s just the government. The ANC and its alliance partners account for several more.”¹⁶ The well-known cartoonist, Jonathan Zapiro expressed this in his cartoon of the proverbial broth and the Ministers as the cooks, with President Zuma asking: “How can I help? ... Need more Cooks?”¹⁷ Justice Malala on the other hand, in his commentary in *The Times* on January 10, criticises the uncritical trust in the state as an agent of change and laments the lack of vision of the political leadership.¹⁸

14 | “ANC 99th Anniversary speech by Jacob Zuma,” January 8, 2011, in: <http://www.news24.com/SouthAfrica/Politics/ANC-99th-Anniversary-speech-by-Jacob-Zuma-20110108> (accessed February 2, 2011).

15 | Cf. Terry Bell, “Decent Work and temp jobs tie ANC and Unions in Knots,” *The Star – Business Report*, January 21, 2011, 2. Cf. Christopher Malikan, “Decent work: Key to growth”; Loane Sharp, “... Or a hidden agenda?,” *Mail & Guardian*, January 28 - February 3, 2011, 33 and 36.

16 | Cf. Nic Dawes, “Crisis calls for decisive Leadership,” *Mail & Guardian*, November 26 - December 2, 2010, 3.

17 | Jonathan Zapiro, *Mail & Guardian*, November 26 - December 2, 2010.

18 | Cf. Justice Malala, “SA needs visionary at the helm,” *The Times*, January 10, 2011, 8.

WHICH ECONOMIC SYSTEM?

The South African economic model can be accurately described as "State-interventionist market economy". There is no planning policy in South Africa, in the sense of a clear definition of the economic system. From the perspective of the dominant ANC this may be purposefully connected in a de facto existing asymmetric two-party system¹⁹. With the Developmental State as concept, which is undermined by the direct intervention on the part of the government, all interest groups of the Tripartite Alliance can meet under the umbrella of the "Broad Church ANC"²⁰, and see their interests represented.

It is not only since the financial crisis that the ANC and the government it forms have shown an interest in the economic systems developing in Asia. The positive economic development in some countries and the rapid overcoming of the consequences of the financial crisis, as well as the increasing trade exchange are key.

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However, it is very doubtful whether the so-called Asian model of a Developmental State is transferable to the African region or individual countries. Although each quite different, the Asian development models do have certain constituent conditions in common. These include, first and foremost, a clear definition of goals and a focused strategy, a strong state with an efficient and independent public administration and effective leadership.²¹

On the one hand, Government intervention destroys the foundations of a Developmental State, which, in South Africa, could be a "Democratic Developmental State". Such a state would be forged by alliances with a broad base in society, not only allowing but promoting public participation.²² The conditions for this however cannot be met as long as the ANC and its Alliance partner hold on

19 | Cf. Siegmund Schmidt, "Länderprojekt Südafrika, Evaluierung," 2010, 19.

20 | Cf. Hans-Georg Schleicher, "Bald 100 – und dann?", *Afrika Post*, 4/2010, 41.

21 | Cf. John McKay, "The Asian 'Miracle' after the Global Financial Crisis: Some Lessons for Africa," The Brenthurst Foundation, Discussion Paper 2010/07.

22 | Cf. Charity Musamba, n. 8, 38 et sqq.

to the concept of the National Democratic Revolution (NDR).²³ On the other hand, South Africa has been developing away from market economy since 2007 and puts increasing faith in public investment plans. With the NGP, the ANC government has clearly settled for state control and intervention, and thus effectively put an end to the market-oriented GEAR policy. That plan was described by ANC speaker Jackson Mthembu to the media at the party meeting as a liberal concept that had led to "jobless growth".²⁴ Whether there were other factors or wrongly set basic conditions at play is a question not considered by the ANC and its alliance partners. A discussion of the Dinokeng scenarios would have provided this debate with a direction in terms of content, and could have led to new insights. Perhaps this connection would have also been clarified: one of the most important goals of the NGP, which, with an eye on the local elections due in May 2011, is being aggressively marketed by the ANC and the government, is the creation of five million jobs in ten years. However, during this period, every year 600,000 young people crowd the labour market.²⁵

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POLITICAL ERRORS

It is unclear what form the South African economic system will take in the future. Based on ideological dissent in the Tripartite Alliance it appears, however, that for the foreseeable future a type of "experimental interventionism" is forming, not always congruent, occurring at frequent intervals. At the same time, with increasing centralization, governmental planning will determine the economic trade of the government. At this point, the influence of China should not be underestimated. In view of the economic sales figures, Peking's "Market Authoritarian Model" appears increasingly attractive to many countries – above

23 | "ANC 99th Anniversary speech by Jacob Zuma," n. 14; cf. National Democratic Revolution: http://nehawu.org.za/uploads/Res_political.pdf (accessed February 2, 2011); http://www.anc.org.za/show.php?include=docs/pol/2007/strategy_tactics.html&ID=2535 (accessed February 2, 2011).

24 | Cf. Sam Mkokeli, "Zuma tells ANC to put Patel plan into action," *Business Day*, January 14, 2011.

25 | Cf. Opinion & Analysis: "ANC cannot wish jobs into existence," *Business Day*, January 10, 2011, 5.

all in the global South.²⁶ In the last three years the political exertion of influence in South Africa came alongside the expansion of economic cooperation. Since the takeover of party leadership from Jacob Zuma delegations from the ANC leadership to China take place on a regular basis. The expenses are shared by ANC and China's Communist Party. As a result ANC announced the establishment of a political school for party members which is oriented towards the Chinese model.²⁷ It shall be headed by Toni Yengeni, former Chief Whip of the ANC in the National Parliament, who was sentenced to four years in prison for corruption in connection with the "Arms Deal"²⁸. At the gala dinner before the 99th Party Convention the Chinese Chapter of the Progressive Business Forum (PBF) appeared as the main sponsor. The PBF is one of the ANC's most important fundraising organizations.²⁹ During the campaign for the presidential elections in 2009 the ANC confirmed receiving monies from friendly parties – including China's Communist Party.³⁰

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The current party majority seems to be following this line. The South African Communist Party also trusts central planning, but rather derives this claim from the Marxist-Leninist body of thought.³¹ By contrast, COSATU ignores the high level of unemployment, and the consequences for the labor market, by appearing with high wage demands and implementing minimum wages. This is in direct conflict with cheap textile imports from China. The example of Newcastle, in the North of the KwaZulu/Natal Province, shows the danger of the migration of production facilities

26 | Cf. Stefan Halper, *The Peking Consensus: How China's Authoritarian Model Will Dominate the Twenty-First Century* (New York: Basic Books 2010).

27 | Cf. Mandy Rossouw, "ANC ponders Chinese policy," *Mail & Guardian*, November 26 - December 2, 2010, 39.

28 | Cf. Andrew Feinstein, "After the Party – A Personal and Political Journey inside the ANC," Jonathan Ball Publisher.

29 | Cf. Mandy Rossouw, "Chequebook politics," *Mail & Guardian*, January 14 - 20, 2011.

30 | Cf. Andile Sokomani, 2010: "Party financing in democratic South Africa: harbinger of doom?", in: Anthony Butler (ed.), *Paying for Politics – Party Funding and Political Change in South Africa and the Global South*, Konrad-Adenauer-Stiftung, 2010, 179; Mandy Rossouw, "ANC's dodgy funders," *Mail & Guardian*, March 20 - 26, 2009.

31 | Cf. <http://www.sacp.org.za/main.php?include=docs/history/1991/constitution7.html> (accessed February 2, 2011).

to neighbouring countries.³² By contrast, Julius Malema, Chairman of the ANC-Youth League (ANCYL), continuously demands the nationalization of the mines, and demanded at the National General Council (NGC)³³ of the ANC in September 2010 that the subject be included on the agenda at the next ANC Party Convention in 2012. In an interview after the NGC, General Secretary Gwede Mantashe explained that an independent think tank will be appointed for advisory support for the Economic Transformation Committee (ETC). In comparison, the spokesperson of the ANCYL, Floyd Shivambu, demanded that in addition to the mines, the study should also include "other strategic sectors such as banks, energy and petroleum" and continues: "The political background of the researchers is vital because they should internalize and properly understand the ANC's 3rd NGC characterization of the ANC, particularly the multiclass character of the ANC, with its bias towards the working class and the poor."³⁴ The UNCTAD study mentioned at the beginning attributes the drastic decrease in foreign direct investments in 2010 to the nationalization debate in the ANC.

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PARTY AND STATE

Based on the National Democratic Revolution the ANC views itself as "the forefront of exercising people's power".³⁵ Consequently, the ANC also views itself as the movement which represents the interests of the people and combines these within the Party. This leads to the incorrect assessment by many members and supporters that the ANC, as an "inclusive Party", has a claim to sole representation of the concerns of the people. The result of this is that the separation between Party and State is increasingly blurred. This is made particularly clear with the filling of public offices. With regard to the "Strategy

32 | Cf. Barry Terreblanche, "Minimum-wage threat to factories," *Business Day*, January 20, 2011, 1 et seq.; id., "Clothing Industry – Only a miracle will stop Sactwu's suicidal trajectory," *Business Day*, January 25, 2011, 9.

33 | Cf. Report of the 3rd National General Council, 48-49; <http://www.anc.org.za/docs/reps/2010/3rdngcx.pdf> (accessed February 2, 2011).

34 | Cf. Matuma Letsola, "Nationalisation row grinds on," *Mail & Guardian*, November 26 - December 2, 2010.

35 | "ANC 99th Anniversary speech by Jacob Zuma," n. 14, 2.

and Tactics" document from the 2007 Convention Jacob Zuma said, in his address to the 99th anniversary of the ANC, "that we place a high premium on the involvement of our cadres in all centers of power". And he elaborates further: "We also need their presence and involvement in key strategic positions in the State as well as the private sector, and will continue strategic deployments in this regard."³⁶ General Secretary Gwede Mantashe explained, in connection with the forced resignation of Thabo Mbeki as President, that the ANC appoints its "Civil Servants" and, according to their decision, also dismisses them.³⁷

In practice, this means that cadres appointed by the ANC are seated in practically all functions, above all in public service and the powerful parastatals, but also in the area of justice, CSO, and other public sectors. With this large number, it is questionable whether those who land in these positions possess the corresponding qualifications. The practice shows that other criteria, such as achievements in the struggle for liberation, affiliation to specific party factions and political machine, are frequently decisive. This leads to poor administration, in particular, on both subordinate political levels, the provinces and municipalities. Extensive corruption and patronage are the unavoidable result. In South Africa, the term "Tenderpreneur" was created for the preferential treatment for the allocation of public tenders, above all with infrastructure investments.

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An additional result of the "Cadre-Deployment-Policy" of the ANC is the accumulation of power in the hands of a few officials at the head of the party, because the ANC is obligated to the principle of Democratic Centralism, as Party President Zuma explained. An efficient and not politicized administration is one of the basic requirements for the functioning of a social market economy. The Asian experiences clearly prove that this is also an indispensable requirement for the economic model of the Developmental State. More generally, *The Economist* 1999, formulates that no country is capable of developing itself without "an

36 | "ANC 99th Anniversary speech by Jacob Zuma," n. 14, 7; http://www.anc.org.za/show.php?include=docs/pol/2007/strategy_tactics.html&ID=2535 (accessed February 2, 2011).

37 | Cf. Werner Böhler, Julia Weber, "Südafrika nach den Wahlen," *KAS-Auslandsinformationen* 4/2009, 38 et sqq.

independent class of public servants”, who free themselves from their political, ethnic, or other loyalties.³⁸ The ANC follows the constitutional guidelines in Section 197 only insofar, that public service should be more representative with regard to the population. However, it disregards that, according to the same section, it must also be efficient, and politically independent.³⁹ Minister Ebrahim Patel shares concerns with regard to the capacities of the national bureaucracy when he writes, with an eye towards the plans of the NGP that the bureaucracy capable of implementing those plans does not exist.⁴⁰

Because a departure from “Cadre Deployment” is not possible for ideological reasons, the ANC government brought about two reform plans: the inspection of the role, number, and borders of the provinces, and the “Single Public Service Bill”. Both reforms inevitably lead to more concentration of power for the national executives. The change in the province borders, or their merger, not only undermines the “Three-Sphere-System” anchored in the constitution, but would also eliminate the opposition government of the DA in the Western Cape and create a long-standing structural majority for the ANC. The implementation of the Single Public Service Bill would, however, give the national government the opportunity to appoint their cadres at all political levels, at will. Unpleasant public servants could, in this way, be arbitrarily changed, even in opposition-ruled provinces and municipalities.

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PARASTATALS

The number of state-owned enterprises in South Africa is estimated at 300; however the intention is to reduce that to 80 strategic entities.⁴¹ These ranges from Eskom (power

38 | Quoted from Jeffrey Anthea, 2010, Affirmation Action and Black Economic Empowerment in South Africa, 13; Working Paper prepared for the Konrad-Adenauer-Stiftung conference “Targeting Horizontal Inequality. Affirmative Action, Identity and Conflict” in Kuala Lumpur, Malaysia, 11/2010.

39 | Cf. The Constitution of the Republic of South Africa, 1996, Section 197, Public Service.

40 | Cf. Ebrahim Patel, “New Growth Path: An attempt to provoke a long-overdue conversation,” *Business Day*, December 3, 2010.

41 | Cf. Mandy Mossouw, Lynley Donnely, “ANC ponders greater role in parastatals,” *Mail & Guardian*, December 10 - 16, 2010.

supply), Acsa (airport operator), PetroSA, Rand Water to South African Tourism, Telkom and Transnet.⁴² Meantime, the ANC now rules out privatizations, as discussed in the first decade of the democratic South Africa. Rather, the State Owned Enterprises (SOE) are viewed as strategic instruments in the hands of the state⁴³ and should, according to the NGP among others, contribute to the reduction in unemployment, to the education of youth, and the modernization of infrastructure. However, the Parastatals largely do not fulfill this task. The main reason is again

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to be found in the Cadre Deployment policy and the ANC’s exertion of political influence. Frequent changes at the management level of the state-owned enterprises combined with high severance pay (Golden Handshake) are the result.⁴⁴ The “Service Delivery” protests feared by the ANC express the dissatisfaction of the people with the basic supply of power, drinking water, and homes. In order to correct the widespread mismanagement the Minister for Public Enterprise, Barbara Hogan, intended to enable independent management of the Parastatals. She was replaced during the shuffling of the cabinet in October 2010. Instead, the ANC intends to subject the SOE to the orders of the ANC government thereby following the Chinese model.⁴⁵

However, the Parastatals also serve to protect the power of the ANC by calling on them for party financing.⁴⁶ The ANC has its own Fundraising Company, Chancellor House Holding (CHH). It is involved with 25 per cent of Hitachi Power Africa Holdings, which received a multi-million Rand contract from Eskom. The often-cited comment concerning

42 | <http://www.afribiz.info/content/parastatals-and-government-structures-of-south-africa> (accessed February 2, 2011).

43 | Cf. Brendan Boyle, “The Big Bang – New unit mooted to take control of 13 parastatals with the president in charge,” *Sunday Times – Business Times*, March 22, 2009, 1.

44 | Cf. Brendan Peacock, “Fat-cat parastatal bosses come and go but they get the cream,” *Sunday Times – Business Times*, December 2, 2010, 1.

45 | Cf. Mandy Rossouw, “ANC ponders Chinese Policy,” *Mail & Guardian*, January 26 - February 2, 2011, 39.

46 | Cf. Zwelethu Jolobe, 2010, “Financing the ANC: Chancellor House, Eskom and the dilemmas of party finance reform,” in: Anthony Butler (ed.), *Paying for Politics – Party Funding and Political Change in South Africa and the Global South*, Konrad-Adenauer-Stiftung, 2010, 201-217.

this from the General Secretary of COSATU, Zwelinzima Vavi is: "God help us all."⁴⁷ And, this is just one example. A gala dinner was held on the eve of both the NGC as well as the ANC Party Convention for the 99th anniversary. Companies could purchase a seat at the table of President Zuma for 500,000 Rand or a seat at a table of Minister's for up to 300,000 Rand.⁴⁸ Represented here are, above all, the Parastatals and BEE Companies. The new party headquarters of the ANC in the Limpopo Province, one of the poorest provinces in South Africa, was inaugurated with the Party Convention. The costs for the Frans Hohlala House, which was playfully referred to by local politicians as the Luthuli House II after the original building in Johannesburg, amounted to 40 million Rand. The new Party Headquarters, according to the statement of the Provincial Chairperson, Cassel Mathale, cost the ANC nothing.⁴⁹

AFFIRMATIVE ACTION AND BLACK ECONOMIC EMPOWERMENT

Leading ANC politicians already confirmed in 2007 that Black Economic Empowerment (BEE) failed. The former Minister for Public Enterprises, Alec Erwin, explained in July, 2007 in front of the South African Business Club in London: "affirmative action is for all intents and purposes dead".⁵⁰ The General Secretary of the ANC and current Vice President of the Country, Kaglema Motlanthe, said in January 2007 that BEE spurred corruption at all levels of government.⁵¹ Moeletsi Mbeki, entrepreneur and brother of Thabo Mbeki, uses strong language to express his criticism when he says BEE "strikes a fatal blow against black entrepreneurship by creating a small class of unproductive but wealthy black crony capitalists made up of ANC

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47 | Cf. Janet Smith, "Beacon, compass, watchdog," *The Star*, December 3, 2010, 17.

48 | Cf. Werner Böhler, "Der ANC wird 100 – und ist auf der Suche nach seiner Identität," *Länderbericht*, September 27, 2010, http://kas.de/wf/doc/kas_20608-1522-1-30.pdf (accessed February 2, 2011).

49 | Cf. Mandy Rossouw, "Checkbook Politics," *Mail & Guardian*, January 14 - 20, 2011, 8.

50 | Quoted from Anthea, 2010, n. 38, 24.

51 | Cf. Anthea, n. 38, 75.

“Government has adopted the position that Black Economic Empowerment should seek to empower all historically disadvantaged people rather than only a small group of black investors.”
(NGP Minister Ebrahim Patel)

politicians”.⁵² NGP Minister Ebrahim Patel adds: “Government has adopted the position that Black Economic Empowerment should seek to empower all historically disadvantaged people rather than only a small group of black investors. Current BEE provisions have, however, in many instances failed to ensure a broad-based approach.”⁵³

For the implementation of BEE the Broad Based Black Economic Empowerment Act (BBBEE) was passed in 2003, which was, however, only brought into force in August, 2008.⁵⁴ With this the prior existing sectoral charters were unified. An integral component of the BEE law is a complex “Score Card System” which includes seven elements based on codes, with which the “Empowerment Progress” of the company can be measured. These are:

- Direct empowerment through ownership and control of enterprises and assets.
- Management at senior level.
- Human resource development and employment equity.
- Indirect empowerment through: preferential procurement, enterprise development, and corporate social investment (a residual and open-ended category).⁵⁵

There are objectives for the individual goals which must be reached after five to ten years. Their compliance is checked by accredited agencies. However, the basic problem does not lie in the lack of willingness of the companies to implement the BEE requirements. Out of 1,500 companies questioned 84 per cent implemented Affirmative Action measures during the transition phase through 1995, which the *South Africa Survey*, conducted by the Institute of Race Relations (SAIRR), proves once a year since 1946.⁵⁶ This also includes the participation of black people in the

52 | Moeletsi Mbeki, “Ripe for the plunder,” *The Citizen*, September 21, 2009, cf. id. 2009, “Architects of Poverty – Why African’s Capitalism needs changing,” Pan Macmillan South Africa.

53 | <http://www.info.gov.za/view/DownloadFileAction?id=135748>, 21, (accessed February 2, 2011); siehe auch Jana Marais, “The Billionaires are back,” *Sunday Times – Business Times*, 1 and 3.

54 | <http://www.info.gov.za/view/DownloadFileAction?id=68031> (accessed February 2, 2011).

55 | <http://www.southafrica.info/business/trends/empowerment/bee.htm> (accessed February 2, 2011); As to the Codes cf. Anthea, n. 38, 38-57.

56 | Cf. Anthea, n. 38, 20-24.

company and leading management functions. However, the basic bottleneck exists in the shortage of "Black people"⁵⁷ with the appropriate training and the necessary experience for senior positions, share ownership, or ownership.

The most recent survey from September 2009 conducted by P-E Corporate Services, established significant increases in the percentage of black managers in Senior Positions and middle management. According to this survey 25 per cent of managers in first-line management of companies and 28 per cent of middle management are black people. In 1994, these figures were five per cent and seven per cent.⁵⁸ In his calculations, Lawrence Schlemmer comes to a comparable increase in the development of a "Black Middle Class". However, he concludes that these growth rates cannot be continued due to the mediocre educational system.⁵⁹ Numbers prove the steeply increasing demand for qualified managers over the coming years. Already in 1998, an additional need for up to 500,000 managers in middle and first-line management was established. With a growth of two to three per cent per year in the next 15 years an additional 750,000 managers will be needed. This number increases to 1.25 million with a growth rate of five to six per cent.⁶⁰

According to a survey in 2009 25 per cent of managers in first-line management of companies are black people. In 1994, this figure was five per cent.

Despite high unemployment companies cannot find enough trained, skilled workers and managers available in the labour market. Nevertheless, the companies must implement the BEE requirements if they want to participate in public contracts, or if they are dependent on licenses or permits. The most recent *South Africa Survey* from SAIRR proves that even the Parastatals cannot meet the quotas and that their employee-structure does not correspond to the overall distribution of the population. This is attributed to the lack of qualified workers, and is proportionate in every population group. The manager of the project, Marius Roodt, confirms this in a press release from January 26, 2011: "This is a reflection of the dire skills shortage

57 | Section 1 of the Broad-Based Black Economic Empowerment Act defines black people as "a generic term which means Africans, Coloureds and Indians", cf. n. 54.

58 | Cf. Anthea, n. 38, 20-24.

59 | *Ibid.*, 69-70.

60 | *Ibid.*, 48-49.

in the country. Companies, and indeed Parastatals, have to take on skilled personnel, no matter what the colour of their skin."⁶¹ International firms are also subject to these requirements. If they present an insurmountable hurdle due to the limitations of the labour market and restrictive immigration or residency regulations, this could have an impact on location and investment decisions, which the German Chamber of Industry and Commerce (Deutsche IHK) confirms for Southern Africa.

DEFICIENT EDUCATION SYSTEM

With a sum of 165 billion rand, education was the largest single item in the fiscal policy of 2010. This constitutes up to about 18 per cent of the budget. South Africa thereby spends more on education than comparable countries. Still in comparative studies of education results the country is regularly among the lower end.⁶² The Minister for Education, Angie Motshekga, considered the rise in the "Pass Rate" for National Senior Certificate (NSC) exams from 60.6 per cent in 2009 to 67.8 per cent in 2010, a growth of 7.2 per cent, to be a great success. The highest quota was reached in 2003 with 7.3 per cent.

A nuanced view however presents a different picture. While before 40 per cent of the maximum points were required for receiving the higher grade, the requirements for passing the NSC are now 30 per cent in individual subjects.

The "pass-rate" at private schools is 98 per cent. State schools, though, are achieving very poor results.

Of 1.3 million school beginners in the year 1999, only 579,384, or 44 per cent, finished in 2010 with an NSC certificate. When the at least 100,000 who did not go to their exams are added to this and this is used as a basis, the "pass-rate" is only 57 per cent. Further insight is gained when private and state schools are differentiated. According to provided by the Independent Examination Board (IEB), the "pass-rate" at private schools is 98 per cent. There are certainly also state schools that, with comparatively fewer available means, achieve very good results. However, the

61 | South African Institute of Race Relations (SAIRR), Press Release, "Parastatals not compliant with employment equity demands," January 26, 2011, <http://sairr.org.za/media/media-releases> (accessed February 2, 2011).

62 | Cf. Sue Blaine, "Key subjects spark pride and concern," *Business Day*, January 7, 2011.

flipside of this is that other state schools are achieving very poor results. When differentiated according to subject combinations, it is apparent that math and science were chosen by fewer candidates than in 2008. It is these skills however that the economy desperately needs. The NGP has the goal of training an additional 30,000 engineers by the year 2014. How this is to be achieved with such a low "pass-rate" is not illuminated in the plan. In 2009, only 98,000 matriculation candidates, which is equivalent to the British A-level, passed the physics exam with more than 30 per cent. In order to be accepted by universities specializing in natural sciences, 40 per cent is necessary.

Even 16 years after the beginning of democracy, education results do not correspond to the financial means employed. Minister Angie Motschekga declared in January 2011

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that it would take two decades to make up the lag in the education system.⁶³ Poor teacher training programs, underpayment of teachers, problems with recruiting teachers for schools in rural areas, school management deficits as well as wide-spread poor school infrastructure and insufficient equipment for teaching and learning materials are among the causes. Corruption through Cadre Deployment is another. It is apparent that the qualification requirements were "standardized" for the last matric exams. The director of the quality assurance office "Umaluse", Professor Sizwe Mabizela, in an interview with the *Sunday Times*, confirmed that a change in the performance requirements was planned. However he maintained that he could not give any further details because of the danger of misinterpretation. He stated that it was a "confidential process but not a secretive one".⁶⁴

Solutions could be found in a study by the CDE⁶⁵ published in August 2010 on "low-fee private schools", as they were introduced in countries like India, Chile and Ghana as "private schooling for the poor". In South Africa, as the study proves, these were often founded or co-funded by

63 | Cf. *SA-Today*, December 6, 2010, 3.

64 | Cf. Interview with Chris Barron in the *Sunday Times*, January 16, 2011, 7.

65 | Cf. Ann Bernstein (ed.), "Hidden Assets – South Africa's low-fee private schools," in: *CDE in Depth*, N° 10, August 2010.

corporations. The actual percentage of these schools in all provinces is said to be about 30 per cent. The ministry of education indicated that the number of private schools in 2008 was 3.4 per cent. Parents say that factors in deciding to send their children to private schools are above all the better results in school certificates and the better educated and motivated teacher, who are, in part, paid less than other teachers. It is questionable whether or not the ANC government is opening itself up to this possibility of a mixed school system or if ideological reasons will hinder it. Alternatively, the national school system would have to be thoroughly reformed, above all in regard to teacher training and their motivation. The fact that

Without a better school education, the universities will have to lower their own levels of quality. This would affect the international competitiveness of South Africa.

this is possible is underlined by the example of the Masibambane High School in the Bloekombos Community in the outskirts of Cape Town.⁶⁶

Without a better school education, the universities will have to lower their own levels of quality. This would not only affect the employment market and job situations, but it would affect the international competitiveness of South Africa, also in comparison with other developing countries. For corporations, this would have the consequence that they would no longer be able to fulfil BEE requirements. Multinational corporations could rethink location decisions or revise investment decisions.

FURTHER ASPECTS

The NGP is characterized by a general mistrust in the allocation capability of the market through responsible decisions by business persons. For this reason the NGP has the goal "to redirect savings and investment toward productive and infrastructure projects in support of employment and sustained growth".⁶⁷ Moreover, many specifications and intention declarations are contained within the NGP without specific statements concerning their implementation and their achievability, with the exception of mentioning that the state and the government will be responsible. A statement about the partnership cooperation with the private sector in achieving set targets

66 | Cf. *DA-Today*, January 24, 2011.

67 | Cf. n. 9, 27.

is not to be found. However, the government is reliant on the cooperation with social partners in implementing the NGP.⁶⁸

In addition, numbers in connection with political-ideological views of the ANC are partially established that have not recognizable political or economic basis. "A broad development pact on wages"⁶⁹ that should be implemented by social partners is suggested. According to this, the monthly income of 3,000 to 20,000 rand per month should rise in relation to the inflation rate in addition to a measured rise in wage. Salaries over 20,000 should also rise in relation to the rate of inflation, without a rise in wage. Salaries of "senior managers and executives" over 550,000 Rand per year should be frozen at this level. This formulation seems to be an indication that "public servants" are not affected. Now it is the salaries of the public servants that are reflected in the budget. Alone the rise in salaries in the year 2010 burdens the budget with an additional 6.2 billion rand.⁷⁰ Lavish bonus and salary payments for the Parastatals are also no model for what is demanded of the social partners in the NGP. The capping of salaries at the level of approx. 45,000 Rand per month also has an unpleasant aftertaste when the minister earns 1.5 million a year and Jacob Zuma approved a salary rise for his cabinet members of 5 per cent. It is equally questionable why the cabinet meeting of 16-20 of January 2011 took place in a luxury golf and safari resort in the province of Limpopo and not in the government buildings in Pretoria. The estimated costs were up to 15 million rand, which will be charged to the government treasury.⁷¹

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According to NGP, the government is obligated, within the parameters of the "pact", to secure social welfare payments to poor members of the communities and disadvantages employees. How this expensive promise is supposed to be administered is not said. Already approximately 14 million

68 | Steven Friedman, "New Growth Path success needs 'new politics'", *Business Day*, January 26, 2011, 9.

69 | Cf. n. 9.

70 | Cf. Annabel Bishop, "Civil servants wages eat into ability to build crucial capacity," *The Star - Business Report*, 25.

71 | Cf. Mandy Rossouw, "Luxury lekgotla irks officials," *Mail & Guardian*, January 21-27, 2011, 2.

people receive social welfare payments. This number will rise to approximately 18 million by the year 2013. In relation to this only 5.5 million carry 95 per cent of income tax generation. The corporate taxes of approximately 2,000 companies are added to this. This base of taxpayers is too small to finance the growing number of social welfare payments in addition to public services. The limits have already been stretched to such an extent that only a rise in the number of taxpayers can resolve the dilemma.⁷²

Independently from the nationalization debate in the Tripartite Alliance the NGP announces the establishment of a government-owned mining company and a government-owned bank. However, the NGP does not answer the question of why these new companies in the hands of the government are supposed to be better managed than the existing parastatals. Many of these, such as the electricity supplier Eskom, the government airline SAA or the government station SABC, require regular financial injections from the fiscal policy. Added to this is a fluctuation in the injection supplied to these government businesses that are either based on political influence or the incapability of the company leadership. "It was all about the state", the *Business Day* commented on the speech by Jacob Zuma at the ANC party convention on January 8, 2011. This does not apply any less to the NGP.

OUTLOOK

The potential of this country, a first-rate tourist destination with access to significant raw materials and a relatively well-developed infrastructure, is not used adequately.

The economic performance of South Africa has, in the two decades since the beginning of democracy, developed positively though at a low level, with the exception of the year of crisis in 2009. In the nineties, the growth rate was a moderate two to three per cent. In the context of the positive world economic development, it rose in the last decade to four to 5.5 per cent. South Africa however remains significantly behind other emerging countries such as Brazil, India, Indonesia, or Vietnam. The potential of this country, a first-rate tourist destination with access to significant raw materials and a relatively well-developed infrastructure, is not used adequately due to false political directions.

72 | Cf. Annabel Bishop, n. 70; National Treasury and South African Revenue Service (ed.), *Tax-Statistics 2009*, 14.

The basic democratic conditions have changed negatively since the negotiated transition. Being in the position of dominant governing party, the ANC seems determined to secure its power permanently or at least long term. Included in this aim are the exclusive proportional right to vote with closed party lists, party financing as well as the increasing centralization of the concentration of power to national executives through weakening lower political levels, interventions in justice such as in the setting up of the Judicial Service Commission, the dissolution of the special unit for fighting corruption in the public sector (Scorpions), cutting off the National Prosecution Authority (NPA) or the purposeful limitation of the media through the Media Tribunal and the Protection of Information Bill. The deciding factor however is the mixing of state and party and, above all, the Cadre-Deployment-System with fatal consequences for independence and the efficiency of governmental administration. Accordingly, the quality of democracy in South Africa has worsened, mostly since 2007, and, as the Bertelsmann-Transformations-Index (BTI) and the Global Competitiveness Index of the World Economic Forums (WEF) 2008/2009 compared with 2010/2011 attest, the competitiveness of the country has worsened as well.⁷³

The deciding factor is the mixing of state and party and, above all, the Cadre-Deployment-System with fatal consequences for independence and the efficiency of governmental administration.

From 2007 at the latest, the ANC has defined South Africa as a "developmental state" with a "developmental economy". Irrespective of whether this is meant to be the classic development state concept from Asian countries or the democratic-developmental model practiced in Botswana and Mauritius, an autonomous and efficient governmental bureaucracy, which is not present (anymore), is the basic requirement for this to work. Edigheji defines the Democratic Developmental State as "one that forges broad-based alliances with society and ensures popular participation

73 | Bertelsmann Stiftung, *Transformation Index* 2010, Gütersloh 2009, http://bertelsmann-transformation-index.de/fileadmin/pdf/Anlagen_BTI_2010/BTI_2010__Rankingtabelle_D_web.pdf (accessed February 2, 2011); World Economic Forum, *The Global Competitiveness Report* 2010-2011, Geneva 2010, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf (accessed February 2, 2011); World Economic Forum, *The Global Competitiveness Report* 2008-2009, Geneva 2008, <https://members.weforum.org/pdf/GCR08/GCR08.pdf> (accessed February 2, 2011).

in the governance and transformation process".⁷⁴ This criterion is not fulfilled in South Africa because the ANC acknowledges its democratic centralism and the internal debates take place within the party and within the parameters of the "Broad Church". Initiatives by the opposition and by (independent) civilians are, in contrast, ignored. The question of whether a developmental state concept can function in South Africa is therefore justified. The realities will again and again force the ANC government to continue interventions in the economy as long as no other basic directions are taken. This would require a complete revision of the ANC's and their alliance partners COSATU and SACP's objectives.

The daily policy interventions that, due to the complexity of economic processes, must be followed by further interventions go beyond the regulatory capacity of the government and the administration. Conflicting national plans and ideological influences unsettle the private economy and scare international investors away. On the other hand, the South African economic system desperately needs a clear direction, because the high unemployment base of 40 per cent presents the potential for a great amount of unrest. Dissatisfaction about the lack of social services (service delivery) and the widespread political machinery already led to violent street protests in townships that could again gain momentum before the upcoming communal elections in May 2011. Higher levels of migration resulted in the xenophobic attacks of May 2008.

The South African economic system desperately needs a clear direction, because the high unemployment base of 40 percent presents the potential for a great amount of unrest.

In order to achieve a reduction in unemployment, growth rates of the BIP that are over six per cent are required. The achievement of this goal must have an economically friendly climate and trust in the economic system as its prerequisite. Clear basic conditions and a reliable legal state of law are absolute necessities. Active middle-ground policy to diversify the economy must also be the goal. The processing and refinement of raw materials would lead to a higher level of value and increased income from exports and would also create additional manufacturing jobs.

74 | Quoted from Meyns, Charity Musamba, n. 8, 40.

Additional jobs in larger corporations and a productive middle class would be created and, on top of this, young people would receive training. More people in employment expands the income basis of the state and lead to higher national revenues that can be used for the expansion and modernization of the infrastructure as well as the establishment of a transparent social service system. In short, it means that: a move away from a state-interventionist market economy model and a move towards a regulatory policy of the social market economy must take place.

It is doubtful whether the ANC is in the position to renew its programs and to return the (strong) state back to the establishment of basic conditions in order to give the economy room to grow. Civil society is ready for a new direction in the economic and social system. The third scenario of the Dinokeng Initiative reveals this possibility.

The article was finished on February 1, 2011.