

Swimming Against the Tide: The Macro-Economic Research Group in the South African Transition 1991-94

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Abstract

This article focuses on the establishment and disowning of the Macro-Economic Research Group (MERG) by the African National Congress in the lead up to the formation of the democratic dispensation of 1994 and the first elections, overwhelmingly won by the ANC which still forms the national government of South Africa. Considerable emphasis is placed on the politics of the ANC and to a lesser extent the general situation of the South African economy rather than by dissecting economic debates alone. MERG was a relatively lone substantial voice calling for real structural and institutional changes in the economy, ultimately rejected by the ANC at the behest of business.

The African National Congress: A Liberation Movement without a Policy

The ANC was banned in 1960. During its years of illegal existence, it had a dominant exile component which won international recognition and support. During most of this period, the ANC said little about what potential economic policies it supported (Gumede 2008:67, Padayachee 1997:46). Reference was made to the 1955 Freedom Charter, whose economic section was written by Communists in alliance with the ANC (particularly Ben Turok and Rusty Bernstein) and used ambiguous language that could be interpreted in a Communist manner or in a reformed liberal or social democratic way (Turok 2008:22). It called for 'nationalisation' of big capital but this could be interpreted in the light of the policies of the British Labour Party (which Turok has claimed influenced him) and other clearly anti-Communist left of centre political forces in the West, as well as an economy that 'belonged to the people'. The head of the organisation in exile, Oliver Tambo, focussed on party unity and avoided any discussion of socialism, capitalism, etc. (Turok 2008). When a new insurgent trade union movement emerged in the early 1970s and began to seek international solidarity and support, the ANC did what it could to stifle such efforts, clinging to the legitimacy of the shadow aligned union federation that no longer had any organisational purchase on the ground (Luckhardt and Wall 1980). The exiled South African Congress of Trade Unions (Sactu) had mainly focussed on ANC recruitment.

¹ The author was a member of the Economic Trends Group and knew first-hand some of the early events mentioned, notably the Harare Declaration meeting of 1990 as well as many of the actors. However, he did not go on to play any role in the Macro-Economic Research Group or any subsequent later policy formation.

The situation within the ANC was more complex. The South African Communist Party (SACP) was critical to the formation and development of the military wing, Umkhonto we Sizwe (MK), which enjoyed prestige if little propaganda success on the ground and it was successful in infusing radical élan amongst many younger exiles. However, these ideas were generally superficial. Virtually no one in the ANC or the SACP had more than limited knowledge about Soviet economic planning or Soviet economic institutions. The influence of the SACP was more important in terms of the structure of a disciplined political party and in propagandising against the power of the West internationally than in any coherent diffusion of socialist ideology. It is difficult to identify ANC leaders with any developed thinking about economic policy (e-mail message Harris to Freund 3 January 2013). A survey of attitudes by black South African opinion leaders on the eve of political transition showed that left-wing ideas were gaining significant ground, but that neither the ANC nor the SACP, as opposed to the new trade union movement, played any part in diffusing them (Hirschmann 1990).

In the 1970s, ANC prospects were poor and liberation looked remote. However, the revival of worker militancy and the new sense of revolt in urban townships, generally led by high school students led to a growing climate of insurgency. The country's economic situation was also changing along with the price of gold declining and a shift towards globalisation. The capacity of the ANC to influence foreign companies and other economic bodies to consider breaking relations with South African business was growing and yet South African capitalists were increasingly anxious to restructure their relations with the wider world. Despite growing pressure placed on the P.W. Botha government the most influential voices in South African capital became convinced the National Party government could not satisfy their needs. Willie Esterhuyse provides information on how big business in Britain intimately tied to South Africa, notably Goldfields, was anxious to promote political negotiations before the mid-1980s (Esterhuyse 2012:22-24). Government leadership realised non-negotiated attempts at reform were leading nowhere. Saul and Gelb noted this double crisis a change from the assumption of the anti-apartheid movement that the South African political and social system was iniquitous but ideal for the needs of capitalism (Saul and Gelb, 1986).

The South African establishment and Western political and economic circles were perturbed by the ANC's ties to the Soviet Union and liberation movements aiming at anti-capitalist transformations.² However, during the 1980s, as *perestroika* lurched forward in Russia without bringing about the reconstruction of socialism as Mikhail Gorbachev had hoped, this view became more nuanced and the possibility of influencing the ANC in pursuing a more moderate path more plausible.³ The last Nationalist state president, F.W. de Klerk, said it was the demise of the Soviet Union that made the breakthrough of 1990 feasible. The events in Russia also affected the confidence of the ANC leadership in pursuing a 'non-capitalist road', against which even the Russians would now advise.

Until about 1980, the idea of negotiations with the apartheid government was remote to the ANC but the unthinkable began to seem relevant and even attractive. After Nelson

² For a sympathetic study of the connection, see Shubin 1999.

³ According to Esterhuyse, former Russian leader Mikhail Gorbachev called for an end to the armed struggle (Esterhuyse 2012:46)

Mandela was transferred from Robben Island to Pollsmoor Prison in 1982, he began having talks with top government spokesmen. The same idea seems to have been pursued by Tambo⁴. It was with his support, so far as is known, that his principal protégé, Thabo Mbeki, initiated this process outside the country.

This included a meeting with the chairman of Anglo-American, Gavin Relly, and other top businessmen in Lusaka, Zambia, in 1986 (Hirsch 2005:43, Gumede 2008:69). Also important was a Swiss rendezvous that brought together future ANC policymakers such as Maria Ramos and Tito Mboweni and representation from the South African Ministry of Finance in 1989 (Sparks 2003). A careful rereading of policy documents before 1990 shows willingness to take a moderate line on future economic policy⁵ (Hirsch 2005:47, McKinley 1997:88ff).

The chief planner of these meetings was Mbeki. He was a figure of the greatest importance in the subsequent history and arguably the most important single architect of the 'new South Africa'. The son of Govan Mbeki, the most prominent black intellectual associated with the South African Communist Party, he was initiated into the SACP and ANC when a young man. Mbeki stood largely aside from MK and its leaders, Joe Slovo (with whom his relationship was poor) and Chris Hani. Instead he developed as a skilful negotiator and diplomat and by the late 1970s, he was actively contesting formulations that smacked of socialism on the part of the ANC (Turok 2008:28). In 1984, an article by Mbeki revealed his rejection of any interpretation of the ANC as a socialist-leaning organisation (Mbeki 1984). He found a coterie of supporters over time, even within MK. As was to become obvious during his term as president of South Africa from 1999 to 2008, Mbeki had little interest in the Old Left or the New Left in socialist thinking or in radical democratic ideas; instead he was consumed from what we know in hindsight by a dislike for Western political power in the world and primarily committed to intensive racial 'affirmative action' domestically while accepting the existing economic world order as a given.⁶

Some facets of the ANC need to be highlighted. On the one hand, inside South Africa, the growing potential for change elicited new sympathizers and cadres who had the capacity to be trained for high-powered government positions but had superficial or no interest in a socialist transformation or in the SACP. Some of these, together with a few exiles, even before and shortly after 1990, began to be pushed into rapid academic training in economics – Ketso Gordhan, Max Sisulu, Tito Mboweni, Vivian McMenamin, Neil Morrison, Maria Ramos, Colin Coleman, to name some.⁷ Today most are prominent

⁴In fact, the lawyer George Bizos was permitted to travel to Harare to convey this information from Mandela to Tambo according to Sparks (2003), Esterhuysen (2012) however indicates that Tambo contradictorily supported Operation Vula which prepared the possibility of renewing the armed struggle after 1990.

⁵ For instance, the Green Paper of 1979 where Mbeki fought to tone down radical language (Turok 2008:27) or various NEC statements as well as the Constitutional Guidelines of 1988. Future cabinet minister Zola Skweyiya supported this drift (1989, cited in McKinley, 1996, 120).

⁶There are two excellent biographies of Mbeki by Gumede 2008 and Gevisser 2007.

⁷This was not at this stage because of the influence of conservative teachers. For instance, a Marxist member of the EROSA group to be discussed below, Laurence Harris, had a preliminary major influence on those who attended the School of Oriental and African Studies, London.

figures in the South African private sector, the last three linked particularly to the financial sector. They form an interesting contrast either to the mostly SACP-linked educated ANC supporters of the pre-1960 days or to the in-between generation of intellectuals who were attracted to the trade union movement, always identified as 'independent' before the merger with Congress of South African Trade Unions (Cosatu) in 1985, and to the independent non or anti-Communist international Left. Alec Erwin, the leading ideologue of the National Union of Metal Workers of South Africa was hostile to the ANC due to its exclusive backing of Sactuin this period, for example.

At the same time, the mass of ANC exiles, radical at least in a nationalist sense, especially those in the bush camps, were kept in the dark and had no idea that negotiations were nigh or even possible. Even at the start of the negotiations period, militant cadres used extreme language about the foe. At the top end of the exile hierarchy, Hani and Slovo were unhappy with Mbeki's activities, but these continued (Esterhuysen 2012, 242).

When in February 1990 F.W. de Klerk freed Mandela, ended the banning of the ANC and SACP and initiated a new historical turn that led into a negotiation process, the position of the ANC had both strengths and weaknesses. With regard to its legitimacy amongst black South Africans and acceptance amongst anyone who opposed apartheid, it was strong and weathered efforts to promote black rivals, especially Gatsha Buthelezi of the Inkatha Freedom Party, to legitimate forces from the other so-called black homelands, to destabilise truce conditions on the part of the security forces and other obstacles. However, this strength depended on the militancy of forces that had emerged independently, especially Cosatu, which had made peace with the ANC but retained autonomy and autonomous ways of organising and thinking as well as the federation of generally locally-based structures (more than 700 at peak) that came together as the United Democratic Front, whose successor organisation, the Mass Democratic Movement, disbanded in 1990.⁸

In the end, the ANC forced De Klerk to accept a one person, one vote electorate but the price was to leave dominant social and economic formations largely intact with a constitution concerned to protect individual and property rights. In the build-up to negotiations, the ANC had achieved one of its greatest successes in pursuing a sanctions campaign. However, implicit in that campaign was the assumption that, were it to achieve power, business interests that had respected the sanctions would be welcome.⁹

In any event, future economic arrangements were not part of the leadership's priorities. Key figures who might have been expected to take up economic issues became preoccupied with political ones in the Codesa (Convention for a Democratic South Africa) negotiations. This was true of respected intellectuals such as Pallo Jordan, of Joe Slovo, Chris Hani and Cyril Ramaphosa, who was the most important ANC figure with a Cosatu background. Even Mbeki only occasionally intervened on the economic side. A Department of Economic Policy was set up with Max Sisulu as the first head and

⁸ For the union movement, see amongst many authors inspired by South African workers, Friedman, 1987, Baskin 1991 and Seidman 1994. For the UDF, see also, amongst many others, Seekings 2000 and van Kessel, 1995.

⁹ I thank Steve Gelb for this insight but see also Gumede 2008 68.

Mboweni as deputy..Trevor Manuel took over as head when Sisulu left to study in the US in the early 1990s. Manuel presented a figure from the UDF proposed by Ramaphosa, and had a reputation of indifferent relations with the trade unionists from Cape Town (Sparks 2003:325, 365).Ramaphosa saw this as a minor post suitable for rewarding a UDF stalwart but the inexperienced Manuel became a pivotal figure with time, later becoming one of the most important members of Cabinet.The DEP itself had little capacity or orientation at first compared to autonomous and more radical groupings.

The Left's influence was still paramount when ANC cadres met in Harare in May 1990 and issued the Harare Declaration. This meeting embraced the slogan of economic growth through redistribution. While the ANC component did not show any consistent commitment to deep economic change, the declaration proposed that the state would assume the 'leading role in the reconstruction of the economy in order to facilitate the realisation of the economy' and 'the democratic movement do[es] not recognise and find[s] morally reprehensible, the present government's attempts through privatisation, regulation and other legislative means, to weaken the new state's ability to intervene to restructure the economy'. It was also agreed that 'appropriate economic stabilisation policies, including monetary and exchange rate policies, would be used to manage macro-economic imbalances of this nature'. However, this declaration was only a preliminary discussion document (Harare Declaration, *Transformation 12*, 1990, see also Hirsch 2007). The 1991 party conference held in South Africa sidestepped discussion of economic policy almost entirely.

The Making of MERG

It was in this context, that the Macro-Economic Research Group, or MERG, was formed in November 1991, and launched by Mandela. (Marais 2010:106).If one looks back even at Mandela's inaugural brief for MERG, it is strikingly conservative, emphasising the need to conciliate business with the only clear impulse for change directed at the elimination of racial discrimination. The slogan of growth through redistribution appealed to him. Yet there is no hint in it of any interest in, or knowledge of, heterodox economic thought.

A local activist from Durban who had joined the movement, and notably the SACP in exile, Jaya Josie, was the director but after some months he was replaced by Vella Pillay. Pillay was an unusual exile. He had worked in London for the Bank of China for many years, and after the Sino-Soviet split, his relations with the SACP were poor. Once prominent in the British Anti-Apartheid Movement, a friend describes him as 'sidelined' by the ANC (Naidoo 2012:734).However, he retained good relations with some top ANC leaders and enjoyed a reputation for economic expertise and independent thinking.¹⁰He had a good knowledge of Asian development trajectories that were beginning to enter the Western academic literature. Pillay also had good friends amongst left-wing British intellectuals active in the anti-apartheid movement, notably Marxist London university economists Laurence Harris and Ben Fine with whom he had studied at Birkbeck College.¹¹ They had a history of advisory work for the ANC in a grouping known as Erosa (Economic Research on South Africa). Together with another British Marxist

¹⁰ See O'Malley 2002. Here concern is mostly with his relationship to Mac Maharaj which cooled but did not disappear after the split. Naidoo 2012, 712, 734.

¹¹ Mthembi interview with Fine, 2012; Harris to Freund, e-mail letter, 3 January 2013.

academic, the South African-born specialist on African agrarian dynamics John Sender, they would prove critical on the steering committee.¹²

Support money for the MERG project, which was intended to formulate an economic policy that the ANC could project, came from a variety of international groupings with a history of sympathy and support for anti-apartheid activity. Primary among these was the International Development and Research Council (IDRC) of Canada, which proposed the project after a plea from Mandela to Canadian Prime Minister Brian Mulroney for assistance (Hirsch 2005:53-54, Habib 163). Canadian funding had already been important in supporting the Economic Trends Research Group (ET), and an initial report from the IDRC was prepared by left of centre economic specialists on Africa, John Loxley and Gerald Helleiner.

Partly in order to appeal to funders but also to show the range of expert advice on which the ANC could draw, a star-studded array of international left and heterodox economists were part of the International Reference Team. In addition to those cited these included Swedes Mats Lindahl and Bertil Odén, the American specialist on Korea Alice Amsden, Americans Bill Gibson and Lance Taylor and Tanzanian economist Benno Ndulu. However, although they visited South Africa and presented their views, they were not involved in the MERG product. MERG's enemies were to attack it as led by foreigners but in fact every player in the debate on future economic policy, given the dearth of South African expertise, relied in significant part on advice from the outer world, indeed almost entirely from Western countries, whether establishment or dissident. There was a supervisory committee of the ANC that in theory was charged with MERG activities including individuals such as Manuel Mboweni and trade unionist Alec Erwin but it was largely a formal requirement and played little active role. The actual MERG-ANC linkages were problematic as was the MERG-Cosatu connection.

The second major node that fed into MERG was the ET, which had been the brainchild of Cosatu. With his background as an economist, Erwin had played a key role in forming and leading ET which was only shifting in 1990 to focus on policy issues and the future, as opposed to the historic assessment of South African economic and social development.¹³ Stephen Gelb, a younger economist trained in Canada, was another key player in this group. Trade unionist Dave Lewis, briefly a professional economic historian and Gelb's successor as the last ET convenor. Lewis led a wing of ET in the direction of the Industrial Strategy Group which came increasingly under the influence of Raphael Kaplinsky, a former South African development specialist with an interest in industrial restructuring, who had moved to Britain long before (Padayachee and Sherbut 2011:119).

The trajectory of the ISP needs delineation because it involved some of the most accomplished members of ET. At first, the focus was on breaking up conglomerate power and disempowering big business (Lewis 1991; Sparks 2003:193, Legassick 2007). Initially, some of its core ideas – deconcentration of conglomerates, only slow and selective tariff reduction, focus on building R & D and state intervention behind particular industrial champions – were quite radical. The ISP clung to union coattails and promoted a

¹²Harris would however make a big swing away from the Left in his views later.

¹³For ET thinking at its conclusion, see Gelb, 1991.

corporatist view of economic decision-making, emphasising internal changes in the way production-orientated business structured labour processes (Joffe et al 1993; Joffe et al 1994).

The relationship with MERG became vaguer with time (Habib and Padayachee 2000, Padayachee and Sherbut 2011:620-21). The MERG report described the relationship as one whereby MERG supported the approach of the ISP but not its framework. Gradually the ISP became less critical of South African business, more narrowly focussed on structural change aimed at increasing manufacturing exports and inclined towards becoming a slightly maverick business consultancy. By 1994 Kaplinsky was open to the idea of reducing wages in the name of competitiveness¹⁴(Kaplinsky 1994).

The ISP also came to embrace massive rapid tariff cuts and committed itself to promoting industrial productivity growth through firm consultancy (Bell 1997). Lewis went on after 1994 to formulate South African competition policy and become head of the Competition Board. A recent memoir opines that

‘...this role and importance of competition policy were, in my mind at least, bolstered by my increasing experience of the limitations-both managerial and political-that the state confronted in taking on the role as the instrument of economic growth and development.’(Lewis 2012 10)

The ISP would have a significant influence on the Ministry of Trade and Industry under the ANC but it did not have much success in achieving its desired reorientation of South African industry, a policy aspect which MERG had championed (Padayachee and Sherbut 2011:613).

Other ET members shifted towards involvement in policy areas in which they had interest or expertise. Vishnu Padayachee, interested in Marxist and Keynesian ideas, and Brian Kahn remained important in MERG. Alan Hirsch, later a key advisor in the President’s Office to Thabo Mbeki, was a MERG researcher as was Ramos. Kahn dropped out in time, however, while Padayachee remained a Steering Committee member.

MERG’s brief was to forge an econometric model that could be brandished by the ANC to rival what the state would offer in negotiations. It was a given that this model would be capitalist but not necessarily neo-liberal in outlook. However, it was also supposed to engage in more wide-ranging research. Fine in particular believed a complex range of policy inputs and institutional changes were more important than any model. MERG was intended to have a significant research base and hired a number of younger researchers. It was also supposed to train hundreds of black ‘economists’ in a short period of time, a Canadian fantasy idea which never happened but arguably was central to IDRC concerns.

Equally politically correct was the insistence on project location at a university amongst those intended for non-whites, in fact the University of the Western Cape where the formerly imprisoned Renfrew Christie, an expert on South African energy provision, played a part (Padayachee and Sherbut 2011:622-23). This was eventually dropped and

¹⁴ Compare his views at an earlier date in Kaplinsky, 1990.

headquarters shifted to the University of the Witwatersrand in Johannesburg where Sender became temporarily a professor. MERG's watchword was 'growth through redistribution' not 'getting prices right'. However, researchers included a wide range of individuals, of whom many (such as Andre Roux and Servaas van den Berg) were orthodox in their economic approach and writing. Among others were Ramos, a key figure in the rightward turn of the ANC and future deputy director-general of the Ministry of Finance, and Hirsch. In the view of Laurence Harris, '...those MERG members who subsequently rejected the government's GEAR [Growth, Employment and Redistribution] policy might have promoted the image of MERG as being a left wing alternative, but even if its conclusions appear left wing, neither the selection of people working in MERG nor the discussions and processes leading to the conclusions were driven by a socialist agenda (Harris to Freund, 3.1.13).

It proved difficult to impossible for this wide array of individuals to form an effective team and bridge the ideological divide (Padayachee and Sherbut 2011:322-23). Strong personalities, often not used to working collectively, clashed irremediably. In the end, Fine, Pillay, Harris and Sender with the support of Padayachee (the three latter individuals on the Steering Committee) were the dominant voices while others dropped out and ceased to support MERG. Hirsch, for instance, was so horrified at the first official presentation of MERG that he went behind Pillay's back to the ANC to protest (Pillay 1994; fax from Mboweni to Pillay, 9 November 1993). Gelb, partly through the mentorship of Gibson and Taylor, was supposed to be the chief modeller. He eventually withdrew and believes the pressures were for a model that was too insular and failed to take international factors into consideration. The realities of a weak foreign exchange reserve and recurrent balance of payments crises weighed heavily on him (Sparks 2003:352, Marais 1993:210, discussion with Gelb May 2012).

Despite its formal credentials, MERG had no monopoly on drafting an economic policy for the ANC. MERG's relationship with the ANC DEP was marked by suspicion and tension. Of particular significance outside MERG was the National Economic Forum (NEF). The NEF engaged top Cosatrade unionists.¹⁵ The Forum focussed on key concrete issues such as the renewal of the motor industry support programme, tariff policy and the establishment of fuel prices.¹⁶ It never came up with a comprehensive alternative plan of action and seems to have avoided confrontations about economic theory but it engaged the political heavyweights regularly, especially Mandela and Mbeki, and fed into a policy trajectory that was well underway before the first democratic election in 1994. Much of the unionists' energies went into efforts to give the New South Africa a strong corporatist carapace. Although a National Economic Development and Labour Council (Nedlac) was ultimately created, it never had the importance or power for which the unionists hoped.¹⁷ The limited involvement of the trade union intellectuals in MERG, given their centrality to the Left in South Africa, was a fatal one.

¹⁵Alec Erwin to Vishnu Padayachee, 30 December 2011. For the NEF as a forum dedicated to putting capital, labour and the state together see Giliomee 351 2012.

¹⁶Messages to the author from Alec Erwin and Rod Crompton.

¹⁷Erwin does point out the significance of a Motor Industry Task Group, initially convened by the government, which eventually developed into the NEF. It proposed a continuation of state support for this major export-orientated industry.

MERG's final leadership derived their decisions from a critical and hostile understanding of dominant international thinking and from deductions based on the literature produced by writers on the Left about the political economy of South Africa. The ANC expected by contrast something that was sensitive to its increasingly clear evolution to the right and in line with the mindset of its leadership, notably in its key statement, *Ready to Govern*, adopted at the ANC NEC. This was the point in 1992 when, finally 'the door for a complete about-turn on economic policy was open' (Sparks 2003:183), although in deference, Sparks says, to Joe Slovo the word privatisation was not openly used.

The ANC Moves Right

The literature on ANC economic policy in the transition era generally starts with Mandela's proclamation after his release from prison, that the nationalisation programme of the Freedom Charter, was an absolute commitment on the part of the ANC.¹⁸ However, it is also true that Mandela framed this in his mind in line with policies typical of left of centre parties of the pre-1960 era even in the West.¹⁹ As Hirsch points out, Mandela was already wobbly on this point by the time he first met business leaders as early as May 1990 (Hirsch 2005:42). Tambo was disabled by a stroke in 1989 but it is unlikely he thought differently.

From early 1990 on, the ANC leadership, very much including Mandela, were subjected to a massive campaign on the part of international capitalist forces (notably the British and US embassies) to move towards policies that would give business much of what it wanted and to fit South Africa into the dominant neo-liberal paradigm.²⁰ On the former front, one should note the importance of international tours and influences. In the course of 1991, Mandela became convinced of the priority of speaking to investors (Hirsch 2005:30). Hirsch ascribes Mandela's abandonment of nationalisation particularly to his attendance at a conclave in Davos, Switzerland, where powerful economic and political figures assembled annually.

Mandela discarded his initial speech in favour of one that was politer to the Davos audience²¹ (Hirsch 2005:29; Sparks 2003:345). He conferred with, and was influenced by, representatives from Vietnam, China and the Netherlands, all of whom advised against nationalisation. By November 1991 Mandela articulated in an article in the *Financial Times* that one had to choose between nationalisation and attracting foreign investment (Habib 1996:161). He wrote: 'The ANC is portrayed in the media at best as incapable of formulating economic policy and at worst as preparing a massive nationalisation programme' (Hirsch 2005). His first speech that clearly showed a rejection of radical economic policies was made in Pittsburgh, USA, on 6 December 1991.

Nationalisation virtually disappeared from the agenda by the time of the ANC National Executive Committee meeting of April 1992 (Hirsch 2005:52-53). This ANC NEC in

¹⁸ The actual South African based authors of the speech, all eventually to become wealthy businessmen, were Murphy Morobe, Cyril Ramaphosa and Valli Moosa, Sparks 2003, 338-39.

¹⁹ Alan Hirsch is not wrong in providing this lineage for the older ANC generation, Hirsch 2005 31.

²⁰ This is lovingly traced by Sparks, 2003, who in fact promoted the process personally.

²¹ See also Sparks, 2003.

1992 still made some gestures in the direction of a radical economic policy in *Ready to Govern* but the 1993 meeting, engineered by Mandela and Mbeki, was fairly unequivocally committed to orthodoxy and continuity on most issues (Gumede 2008:71). By the time the MERG report was issued in November 1993, the ANC had set up its economic orientation although the struggle to inject progressive content, especially from Cosatu, did continue.

It might be expected that the Washington Consensus institutions, then really at their peak of influence, would have been very critical actors but research indicates a more nuanced picture. It seems true that they, and those that they recommended, were useful in schooling Manuel, amongst others, in the 'realities' of the dominant discourse (Gumede 2008:73). Yet the World Bank was well-informed about South African conditions and was prepared to tolerate and even approve radical reform: it is from World Bank consultants that the ANC acquired the idea of the racial transfer of a substantial amount of land (30% of white-owned land) and a World Bank report suggested that a 10% budget deficit might be at first desirable in the white heat of change (Marais 2010:101 Padayachee 1993, Padayachee, 1997:33).²²

However, it was only in 1997 that a small loan was taken from the Bank for the first time in support of small business creation (Bond 2000:160, Padayachee 1997:33). The position of the World Bank has been explained (from within) by the desire of the Bank to make South Africa more of a partner than had been usual in its policy work as a means of getting over the bad publicity it had received in Africa and the bad odour in which it was generally held by the ANC and its allies (Gonzales 1995).

It is also remarkable that Manuel, then new to the DEP, was invited to participate in a short course at the Bank in Washington early in 1992 and was joined before it concluded by Mbeki who had organised this delegation (Gevisser 2008, Sparks 2003, Padayachee 1997:45). From this time on, Manuel spoke with conviction about the policies he would promote. This was followed by the establishment of training course relations with the investment brokerage firm of Goldman Sachs.

The International Monetary Fund's first report on transitional South Africa by Lachmann and Berkuson, however, emphasised that while an analysis of structural and institutional problems was all well and good, liberalising external trade and financial relations as the top priority and then contracting public expenditure, took precedence as everywhere else in the world. In the second half of 1993, the ANC engaged in secret negotiations with the IMF leading to an \$850-million loan under conditions that spelt out conservative policy restraints in a Letter of Intent. Finance Minister Derek Keys, who had entered the last National Party cabinet on the advice of magnate Anton Rupert, was crucial in bringing this about, having essentially promoted the deal within the De Klerk government²³ (Padayachee 1997:32). The Transitional Executive Council, a joint ANC-National Party government committee, approved this loan (Terreblanche 2012:64). The MERG leadership

²²Obviously there must have been other progressive interventions from overseas but they are not critical to the literature or the argument in this essay.

²³Indeed Patrick Bond thinks the IMF was crucial in promoting Keys' retention as Minister as well as the continued governorship of Chris Stals at the Reserve Bank. (Sparks 2003, 382)

were consulted on these negotiations but the amendments they suggested were ignored (Habib and Padayachee 2000).

Who were the key players in this shift to the right? Behind the scenes, Mbeki, who was effectively the most important figure after Mandela in the new government after 1994 where he first served as deputy president, was perhaps the kingpin. In the end, the key decisions were theirs.²⁴ Manuel was also significant (Green, 2011). Up to the arrival of Manuel, pronouncements by the DEP were in some respects progressive: against low wages, capital to be garnered locally, taxation of corporates, unbundling of conglomerates (Marais 2010). The future minister of finance under Mbeki, Manuel was at first viewed with suspicion as a UDF type little-known to the exiles. Mbeki quickly became Manuel's mentor (Gevisser 2008:664).

Shifting in this direction as well were Erwin (a dramatic change of heart in 1992 that was crucial because of his Cosatu credentials²⁵), future minister of trade and industry; and Tito Mboweni, future Governor of the Reserve Bank.²⁶ Perhaps one should also mention Manuel's future deputy and later partner and wife, Maria Ramos, equally important later in structuring and consolidating a Ministry of Finance that would win praise in international business circles.

The influence of South African business was also important. On the South African corporate side, a series of scenario presentations, one from Old Mutual/Nedcor (endorsed in a blurb by Ramaphosa, see Bond 2000:58), a second from Sanlam and perhaps most influential, the Mont Fleur bird flight simulations of August 1992, by some of the biggest players in South African capitalism, were some of the best-known (Gumede 2008:72; Marais 2010:100). The flamingo pattern was particularly embraced by Manuel, which made everything clear to him in his own words (Sparks 2003, Giliomee 2012:351). Only two months later came *Ready to Govern*. Terreblanche refers as well to secret meetings held at the Development Bank of South Africa whose late director, Simon Brand, had been considered relatively independent and progressive (Terreblanche 2012:63).

One should not underestimate the role of the doyen of South African business, the richest South African of them all, Harry Oppenheimer. Oppenheimer formed the Brenthurst group, which met regularly with Mandela and others (Sparks 2003; Terreblanche 2012:63). He and others threw open their amenities to the leadership in waiting²⁷, were willing to accept many aspects of ANC desiderata (for instance the interest in creating some black participants in big business and a willingness to accept much of the progressive social legislation of the early years) and became increasingly trusted as consultants on what mattered most to them. Thus, by contrast to the disinterest that had

²⁴This is clear from the unpublished comments of Alec Erwin to me, September 2012.

²⁵Gumede 2008, 74. While he was not unique in this change of heart, the thrust of COSATU was very hostile to this drift. Thus Erwin was a prize catch for Mbeki. But the compliance of the NEC as a whole must have been very significant as well.

²⁶For Mboweni, see Hirsch 2005 30. Mboweni was the most equivocal of the three. To his credit, he was for an important phase Minister of Labour who shepherded progressive labour legislation through Parliament very much against the international grain.

²⁷'Anglo American, who owned the nearby wine estate Vergelegen, offered it to the ANC for its first legal meeting on South African soil.' Sparks 2008 328

been shown in consulting with MERG, when it came to promoting the GEAR programme in 1997, the Brenthurst Group was listened to respectfully and its suggestions and amendments taken up by the ANC leadership (Gumede 2008:79).

The final factor was the transitional state itself. Keys formed close relations with actors representing the ANC alliance, notably Manuel and Erwin. From 1992 an Economic Transformation Committee was formed by the ANC and the National Party government, where international factors such as the context of the new World Trade Organisation (the so-called Uruguay Round) with its heavy free trade ideology were bruited and accepted. The lineage here went back to the National Economic Forum rather than to MERG. This evolved into the Transitional Executive Council which made the first deal with the IMF in 1993. Of course, for the first phase after elections, a Government of National Unity prevailed with Keys in the cabinet and equally conservative management in the Reserve Bank in the form of Governor Chris Stals. It was the National Party that would eventually step away from the GNU and not over macro-economic issues.

The MERG team were not linked to top ANC leadership and were therefore not consequential as a countervailing force. The leadership had nobody on the Left to trust whom they considered truly their own. By contrast, the Right offered paths (steering close to the Normative Economic Model or NEM designed by University of Stellenbosch economists and adopted by De Klerk while still in office) which seemed feasible (Marais 2010:103). Second, the ANC were subjected not only to the sugar cube of understanding chat about the evils of racism and the need for change, but also to the stick of what might happen if they tried to defy business consensus, both nationally and internationally.

Even amongst anti-apartheid economists, conservative voices hostile to MERG perspectives prevailed. The main thrust of their arguments was not that MERG policies were bad or undesirable but that they were impractical. Harvey and Jenkins insisted that interventionist economic policies were invariable failures in Africa (without mentioning their success in Asia) (Harvey and Jenkins 1994). Terence Moll explained that Keynesian policies were at first a stimulant but led to a dead end, bringing about disastrous balance of payments problems and out of control inflation (Moll 1994). Yet Moll gave as his most thorough negative example Alan Garcia's first government in Peru, a country with a much lower level of industrial development and infrastructure than South Africa and one that was seriously dependent on repaying foreign debts in order to function, also unlike South Africa. The gist of the numerous contributions of University of Cape Town economist Nicoli Nattrass was that MERG policies were desirable but would meet business disapproval and thus needed to be ignored (Nattrass 1994). For liberal economists, this was apparently a 'great debate'.²⁸

Yet whatever the shortcomings of this mindset intellectually, Moll was right that investment in infrastructure and education could take many years to have a positive effect. The practical issues Nattrass raised about feasibility were also quite real. The ANC

²⁸Sparks 2003 is a good source on the extreme hostility of business to MERG. He shared the conventional media and corporate view that instituting a minimum wage doubling the poorest workers' incomes was 'pure macro-economic populism' and considers the whole MERG effort completely lunatic.

was rationally and genuinely afraid of the potential of massive capital flight, of business investment strikes and white managerial emigration on a scale to undermine the economy, and its leaders wanted to show the world their managerial competence (Turok 2008:44). The dream remained too that 'sound' macro-economic policies would lead to foreign investment on a big scale just as the upbeat scenarios predicted.

A concomitant of this were claims that began to be spread widely even before the ANC was in power that the situation of the South African economy was parlous (Sparks 2003:188, 181, 375ff; Michie and Padayachee 1997:13-15, Marais 2011:191). In fact, from the point of view of productivity, employment or growth, things did look quite bleak in the early 1990s. Sparks (2003) stresses that Minister Keys, thus representing past policies, was particularly keen to impart this view, confirmed by Giliomee (2012: 350) and Alec Erwin: '...by 1992 as a result of the NEF and the ETC we had a much better understanding of how indebted the apartheid state had become and we [were] cautious about the possibility of an Argentinian style super inflation' (Erwin to Freund, 25.09.12). Another influence for Erwin was that of liberal economist Iraj Abedian.

However, the National Party were no spendthrifts. Private savings were declining but not to drastic levels. In general, budget deficits had been kept very low and the country's debt level was well below the 60% level considered tolerable and exceeded by many leading capitalist countries (Van der Merwe 1991; Mohr 1994; Legassick 2007:459). It is true that integrating civil servant pension funds obliged the state to spend inordinately in 1992, a major reason for a sudden 10% overspending deficit budget (Giliomee 2012:350) but this would not normally have continued.²⁹

The inflation rate was high, especially given that there was virtually no economic growth during the transition years. The worrying figure was the small amount available on reserve for expenditure, a situation that proved to be difficult to reverse after 1994. Nonetheless for Ramos, the severity of a crisis situation justified the turn to orthodoxy just as for Erwin. It was in addition the defiance of international standard practice that seemed hair-raising. Erwin and other trade union representatives accepted much criticism and, while accepting the paths of fiscal management, put their weight instead behind the institution of Nedlac and the championing of progressive social policies on a wide spectrum in contrast to MERG.

MERG: Analysis and Assessment

In reconsidering the MERG project, three different strands come up for discussion (*Making Democracy Work*, 1993). First, with Gelb out of the picture, the team was forced to move quickly to find the alternative desired model. In the end, one was produced swiftly by Peter Brain, a politically sympathetic Australian without much knowledge of the specifics of the South African economy. Here it was suggested that with some additional deficit spending, increased tax revenues and a move away from apartheid priorities such as the military, it would be possible to channel investment in such a way as to promote employment and exports, to construct infrastructure while intensifying the diffusion of skills and education. Poorly paid workers could benefit from a minimum wage which would enhance buying power. Moderate levels of inflation could be tolerated for

²⁹ Another was a large, one-off subsidy to grain farmers, MERG 1993 5.

an interim period. South Africa's problems were considered to be unemployment, ignorance and poverty, not inflation or uncompetitive high wages for labour. This was a classically Keynesian vision in a very non-Keynesian era and it predicted a relatively quick path towards rapid economic growth.³⁰

Second, MERG produced a substantial report considering various aspects of the South African economy, including indirect institutional areas of concern that went beyond a modelling exercise. The central principles were:

- 1) Commitment to a 'growth objective' focussed on job creation;
- 2) Enhanced and targeted spending on expanding the quantity and improving the quality in the educational system;
- 3) Development of adult basic education and training;
- 4) The creation of 2000 clinics as a basic step in building a national public health system;
- 5) A massive expansion of structured housing sites and housing construction units;
- 6) Land redistribution primarily aimed at food security and rural women;
- 7) A 'realistic' minimum wage; and
- 8) An industrial policy aimed at raising exports but with the emphasis on developing manufacturing and skills, and a competition policy to promote small black enterprises (MERG 1993:2-3).

Public investment was to be fixed to a trajectory of sustained growth as per the model (MERG 1993:7). In summary, the authors considered that 'MERG proposals amount to a strategy for which the state would provide leadership and coordination for widely-based economic development and intervene directly in key areas'.

Some of the suggestions deserve attention. Expenditure on education and health education were to increase but the assumption was that tax increases would be moderate and deficits would decline as growth kicked in. A capital gains tax was proposed alongside increases in taxes on the well to do, and trade liberalisation was viewed with caution and the danger of capital flight was raised (66). Exchange rates were to be kept stable and to be determined by more than just the need to fight inflation. A People's Savings Bank was proposed, possibly to function via a reformed Post Office (247) and the Stock Exchange required remodelling to encourage state investment to promote industrial innovation. The Reserve Bank was to be nationalised and put constitutionally under state supervision with some autonomy. A distinction was made between consumer industry and industry flowing out of the beneficiation of mineral extraction (213) with a need to develop both with state intervention. The state needed to take it on itself to promote training, research and development, technological progress and appropriate fiscal policies while making decisions on output and pricing.

The socioeconomic context received major attention. The housing programme was to focus on rental accommodation for low-income people and education (84-85) policy was

³⁰Vella Pillay saw his intervention as Keynesian (O'Malley 2002). However one can denote the influence of the emerging East Asia-based developmental state literature and on financial matters, the German model.

to aim at the 'provision of universal, state-funded schooling' with attention given to institutional restructuring and addressing the skills shortage. Additional features included assistance for those under stress in rural SA with a rural policy which needed to be integrated and to provide massive numbers of paid jobs, especially for rural women with some targeting of small-scale agriculture. Cross-subsidised electrification and rural road construction were proposed.

This programme can be compared to that of the RDP, the Reconstruction and Development Programme, formulated and used prominently by the ANC in its April 1994 election campaign. The executive team that drafted the programme consisted of Patrick Bond, Max Sisulu, Jeremy Cronin and Erwin. According to Erwin, he was the main author with the assistance of Bond, an American student of the radical geographer David Harvey. Erwin relates the RDP specifically to discussions within the NEF where the trade union intellectual leadership was active. The RDP was adopted by Cosatu in November 1993. It was conceived separately from the MERG report but also researched and reported on socioeconomic conditions (Gumede 2008:74). It was Erwin, with Jay Naidoo, the general secretary of Cosatu, who got the ANC to accept the document.

Up to a point, this was a victory for Cosatu and arguably the SACP. However, 'by the time the final version of the RDP had appeared, it was not the radical document many argued' (Padayachee and Sherbut 2011:627). While the assessment of social conditions was forthright and impressive as a result of substantial research, the macro-economic policies to sustain reform were left very vague (Legassick 2007:456ff; Adalzaadeh and Padayachee, 1994, Lodge 9-10). One can argue that in this way MERG-related research had some influence on policy, alongside those of its detractors (Lodge 1999, Hirsch 2005:59, Gumede 2008:72, Padayachee and Habib 2000).³¹

However, even as an integrated social programme the RDP was not retained. Naidoo was made RDP Minister, apparently on the urging of Mandela and against the wishes of Mbeki who disliked this usurpation of conventional bureaucratic authority (Gevisser 2008:669). It did not work organisationally and lacked the influence or the resources to alter the work of the line ministries and was eliminated in 1996. At this time, the Growth, Employment and Redistribution programme was introduced following the work of a team that included some veterans of the previous processes such as Gelb and Hirsch. GEAR, which Mandela announced as being beyond discussion, was the culmination of the rightward turn and underscored what was somewhat masked from the supportive public in the previous five years³² (Gelb 2006).

The ANC moved ahead and continues to do so within its means, on many RDP issues—housing, electrification, water reticulation, the removal of discrimination and—through

³¹For an early defence of MERG, see Pillay and Milward 1995. Another supporter was Jeremy Cronin, a key SACP intellectual and eventually a post-Mbeki cabinet minister. Erwin believes that his differences with MERG were limited to 'timing and emphasis', Erwin to Freund, 25.09.12. Harris now believes that the differences between MERG, the RDP and GEAR were not so significant, Harris to Freund 03.01.13.

³² Erwin in retrospect regrets the secretive way GEAR was put together and its sudden public release. Ultimately this was counterproductive in his view, Erwin to Freund, 25.09.12.

'transformation' policies-- the land question. It shifted only to a limited extent towards reducing taxation on upper income brackets to foster spending; progressive taxation has remained a key fiscal recourse in South Africa. Redress appears to have been pursued without any clear prioritisation or coherence. These policy lines, together with the growing provision of social grants to the poor, have been uncoupled from any macro-economic package.

Whether the integrated bundle of the national stimulus package could have worked is uncertain. It is true, despite what MERG's defenders have said, that capitalists have continued to reduce payroll numbers substantially, at least in part due to the minimum wage, in the agrarian economy (Böhm and Schirmer, 2010; Klerck and Naidoo, 2011). Indeed their principal contemporary political call is for a 'less rigid' labour market so wage bills can be reduced further. Spending on infrastructure, which characterised the prosperous middle years of the second ANC decade in power, also boosted the numbers at work but only so long as state projects were available. Neither this nor the substantial housing programme of the state, have served in any significant way to kick-start small enterprise growth; nor has the state had much success in small business formation despite a long-time commitment. Land reform has been an economic failure.

ISP type thinking about promoting select lines for growth has also had limited results. The MERG team probably underestimated the problems posed by institutional inertia, poor capacity and difficulty in changing the nature of a strongly entrenched growth path built around massive state investment and large numbers of lowly paid, low skilled workers.

Thirdly and most critically, a striking feature of MERG, and in this it followed the Asian developmental state model, was its willingness to try to discipline and channel capital. This power was necessary to sustain the model outlined. Here it differed markedly from the RDP. In his introductory talk to the Oliver Tambo Memorial Lecture, Pillay expressed his hostility to change in protectionist legislation, except slowly and selectively after five years of careful deliberation. The Reserve Bank issue was in good part rhetorical and symbolic but it was this that made the private sector shout holy murder, starting with the reaction in *Business Day*. In an editorial signed 'Left Bank' but written presumably by Jim Jones after Vella Pillay had first introduced the MERG report, described Pillay as an 'economic populist' with 'quaint ideas' and [fortunately] little influence in the ANC (*Business Day* November 8 1993).³³ This third aspect was entirely rejected by the ANC, where there was little grasp of, or attraction to, the Asian model.

The MERG report was dumped unceremoniously.³⁴ Manuel introduced it at a launch but soon made it clear it was not going to be ANC policy. Insultingly Mandela withdrew his proffered foreword and did not attend the launch (Gumede 1996:74, Sparks 2003:184, 352). Announcement of the IMF deal in March 1994 (MERG strictures were ignored)

³³Greta Steyn (1993) notes, however, that strong forces in the ANC (mostly amongst its allies) took a supportive view.

³⁴According to Vella Pillay, Walter Sisulu asked him to 'go slowly; I don't want you to be hurt' (O'Malley 2002). Fine considered this to be 'absolutely and completely' a rejection, tied to MERG being scapegoated as an anti-business tool of the Left and he and Sender were not used again as consultants.

added salt to the wounds. It involved commitments to reduce the budget deficit, lower the public sector wage bill and scrap import surcharges (Bond 2000:179). Pressure to impose compliance characterised IMF influence thereafter (Padayachee 1997:37). Despite a counter-vote in the ANC executive which supported the MERG position the independence of the Reserve Bank was established secretly (Marais 2010:106, Bond 2000:76). Out of the MERG process came the establishment of the National Institute for Economic Policy, a structure which continues to exist but has never had the resources to make much impact.

The appointment of ancient regime figures from the business world, first Derek Keys, a keen supporter of De Klerk's Stellenbosch generated NEM economic model (Habib and Padayachee 2000)³⁵ and then Chris Liebenberg of Nedcor as ministers of finance with Chris Stals, who envisioned his role as primarily fighting inflation, retained as governor of the Reserve Bank, was intended to reassure conservative financial circles about what was termed a Government of National Unity (Padayachee 1997:48).³⁶

Under Mbeki, acceptance of the Black Economic Empowerment Programme proposed by big business, led to a mutually profitable relationship between the ANC party-state and the big corporations³⁷ (Iheduru 2008). Indeed, it could be said that the black business elite created through the BEE strategy after 1994 has bought into the dominance of mining houses and closely related enterprise as the Industrial Development Corporation invests in mines. This new kind of alliance, so fundamental for the ANC as a party, did not exist in MERG proposals, which referred to the dangers in this kind of racial economics. Neither did the unions succeed in getting a corporatist governance to replace one via the conventional bureaucratic route. Through 1992 and 1993, Mboweni and Manuel led the fight to make sure the ANC alone, and not Cosatu, would set economic policy (Marais 104). By the first couple of years of the new government, it was clear that they had succeeded.

Conclusion

After the MERG report came out, it became clear at key meetings that macro-economic policies were going to take an orthodox form. In complete contradiction to what MERG recommended, tariff barriers were removed so quickly they exceeded what was proposed in the WTO (by Manuel as minister of trade and industry late in 1994, Habib 1996:190) and the most powerful business players were allowed to move their headquarters to London (so Anglo-American, once completely dominant on the Johannesburg Stock

³⁵Manuel considered Keys a mentor with a friendship first formed while watching a rugby match, Sparks 2003 188. Keys also famously expressed a paternal view of 'this young man', Erwin. According to Patrick Bond, after a few months as minister for the new Government of National Unity, Keys resigned to run the giant mining corporation, Billiton, which he had previously authorised Gencor, a major South African mining house, to purchase from Shell, thus allowing it handily to move its headquarters out of South Africa, Bond 2000 25.

³⁶ For Stals' orthodox views on how a Reserve Bank must function, see Stals 1993. He specifically condemns targeting.

³⁷The chief figures in MERG were white apart from Pillay and Padayachee despite the importance of race in ANC thinking. The report concerned itself with poverty and is sensitive to gender inequality but it says relatively little about affirmative action in racial terms.

Exchange, became South Africa's biggest 'foreign' investor). The *finrand*, which controlled the exchange rate for exiting firms was abolished and the Reserve Bank's independence and commitment to fighting inflation was constitutionally enshrined.

Mbeki promoted privatisation to fit plans for the making of a class of wealthy black businessmen and...to pay for the RDP (Fine 1995). It can be said that the conservative fiscal approach meant the ANC government came to depend very little on the IMF and World Bank for loan money (Turok 2008:56; Hirsch 2005, Padayachee 1997:37); this apparent paradox fitted Mbeki's distaste for Western domination but of course meant the adoption of the very policies associated with the Washington Consensus.

Interest in MERG, however, keeps bouncing back because the success of GEAR type macro-economics, still policy today has been so limited, apart from the claim which can be made that the move Right stabilised a dangerous situation politically and created a platform on which the new South Africa could operate. Especially with the passage of time, the weaknesses of following orthodox policy became more and more apparent – slow and uneven growth, limited foreign investment, low savings rates and punitive interest rates, continued poor education and training results, little success in shifting towards manufacturing exports and continued balance of payment problems (Weeks, 1999; Koelble 2004).

A recent assessment of South Africa suggested the positive assessment of the country as a member of Brics was entirely deceptive.

'In the post-apartheid era, South Africa earned well-deserved credit for getting the basics of national budget control and finance right but at a real per capita income of nearly \$8000, it needs more than economic stability. South Africa has failed to create the conditions for dynamic innovation and competition, which it needs to become a "breakout nation".' (Ruchir Sharma, head of emerging markets at Morgan Stanley Investment Management, *Business Day* 12 June 2012)

Yet it was firms like Morgan Stanley that rejected the bold effort of the MERG team to move in a different direction. To a large extent, the return to orthodoxy brought about an extended reproduction of a given developed economy with modest growth, mass unemployment, unprecedented levels of inequality and continuing lack of the tools required for building a more skills-based economy albeit benefiting the middle class. Saul and Gelb's dual crisis was to some extent resolved: the deep social and economic problems of the poor have largely remained almost intact but business has got what it wanted and has become absorbed into lucrative globalised patterns. MERG was the road not taken. As Mboweni wrote in a recent *Business Day* exchange with Pallo Jordan, inclined to blame conservative choices on the pressure of overwhelming outside forces, it is also South Africans who have to take responsibility for the key decisions.

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