

RECONSTRUCTING A DIVIDED COUNTRY UNDER GLOBALISATION – CHALLENGES AND POSSIBILITIES

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Views on globalisation tend to polarise fairly quickly. For policymakers, even the selection of polar opposites in this debate is a non-existent luxury. The truth is that there is no turning back from the present high degree of economic Integration, uneven as its development is. Rather, the key issue as articulated by Professor Dani Rodrik¹ is

That it is not whether you globalize that matters, it is how you globalize. The world market is a source of disruption and upheaval as much as it is an opportunity for profit and economic growth. Without complementary institutions at home – in the areas of governance, judiciary, civil and political liberties, social insurance, and of course, education – one gets too much of the former and too little of the latter. The weakness of domestic institutions of conflict management was the Achilles heel of the development strategy pursued in Latin America, Middle East and elsewhere, and this is what made these countries so susceptible to the external shocks of the 1970's.

Undoubtedly, then, economic integration must be managed because it carries the possibility to severely restrict the degree of policy choice that a country has. It is worth reminding ourselves that the extent of limitation of choice and country's demand for access to capital, are in direct proportionality. The key variables are firstly, the financing of the fiscal deficit and secondly, the dependence on external capital for financing economic expansion. Alternatively stated, a country in fiscal surplus with a level of domestic savings sufficient to finance its own development has far more policy room.

¹ Dani Rodrik is professor of international political economy at the John F Kennedy School of Government, Harvard University. The quotation is from the Prebisch Lecture he delivered in Geneva on 24 October 1997.

Countries which are entirely dependent in the Bretton-Woods Institutions for finance would have the policy limitations imposed through the Washington Consensus or its derivatives. This is quite a formal limitation.

Alternatively, the restrictions are imposed informally by virtue of interconnectedness. In “The Lexus and the Olive Tree”, Thomas Friedman describes this as “The Golden Straitjacket”. In support of his argument, he quotes Manmohan Singh, a former Minister of Finance of India as saying²

We have a world where our fates are linked, but [India’s specific] concerns don’t get taken into account. It brings a lot more anxiety. If you are operating an exchange-rate policy, or monetary policy, your policies become an adjunct of what Alan Greenspan does. It reduces your degree of freedom, even in fiscal policies. In a world in which capital is internationally mobile, you cannot adopt rates of taxation that are far from the rates that prevail in other countries and when labor is mobile you also can’t be out of line with others’ wages. It has reduced the amount of manoeuvrability...

The key issue is the extent of capital mobility and a country’s demand for a portion of the free float. We have a difficulty, described by Dani Rodrik³ as

The political trilemma of the global economy is that the nation-state system, democratic politics and full economic integration are incompatible. We can at most have two out of the three. It follows that the direction in which we seem to be headed – global markets without global governance – is unsustainable.

In the context of restricted policy room, let us then return to the issues of the nation- state and democratic politics. Here, an important question arises – “what are the people willing to accept?” This clearly is a function of their own political or security experiences and the value they attach to their sovereignty. However, the circumstances in a particular country may also be affected by geo-strategic considerations. Major powers may want the success of a particular reconstruction effort sufficiently. In such an instance, donor aid will be

² The Lexus and the Olive Tree, Thomas L Friedman, p108 , Harper Collins edition.

³ Dani Rodrik, at p1 of ‘Feasible Globalizations’, published July 2002

mobilised in large quanta and policy nuances will be tolerated, if this is deemed a prerequisite for a buy-in by the people.

In the South African experience we found that whilst there was a verbal enthusiasm for the termination of apartheid and the establishment of democracy, this did not translate into huge flows of donor aid. Which may be just as well – it provided us with a bit of additional policy room.

Here, the horrors that people had lived through and the collective experience of the long struggle against apartheid meant, and indeed still means, that there is a premium attached to sovereignty. It has been possible to persuade all South Africans that there are resource constraints which require careful choice. It is in this area where all of the discourse occurs – from macro-economic choices to spending priorities. We shall return to this topic presently.

In the context of the 'trilemma', with the space for democratic politics and policy fettered by 'the golden straitjacket', there are four dimensions that determine the quality of both the reconstruction effort and its outcomes, these are

- quality of political leadership
- policy choices made
- mechanism of voice to ensure participation
- credibility of the state apparatus.

Let us examine these in the South African context.

The quality of political leadership

The key determinants of leadership are the strength of vision; the ability to take decisions, even those that appear unpopular; the extent of organisational support earned and the resoluteness on matters of principle and the ability to persuade, even those outside of the fold.

Successive leadership cadres in South Africa have all combined these tenets of leadership. Furthermore, the presence of leadership with integrity and a history of sacrifice added substance to these qualities.

We must be mindful of the fact that the demands on leadership have not been constant over time – the constituency to be won over – the prevailing risks and rewards and the ability to deepen the buy-in all shift with time and circumstance. Leadership must be able to correctly read the pulse and, perhaps more importantly, determine whether a historic shift is attainable.

One of the most critical challenges of leadership arises in respect of understanding risk and influencing what it has no immediate control over – this matter was debated intensely between the ANC and its allies. The agreement on the issue of influence was resolved in a document entitled “The State, Capital and Social Transformation”⁴

The more strategic contest is taking place beneath the superstructure: it is about the ownership and control of resources and the freedom of the state and the classes it represents to regulate and manage the accumulation and allocation of capital in their own interest.

The quality and resolve of leadership will be repeatedly tested – a unipolar world is also an intolerant world. This needs to be borne in mind because of the reality that globalisation, taken at the full, fetters domestic decision-making. The focus has to be on developing a transformation programme which is both deepening and sustainable. This demands leadership capable of understanding the domestic and international demands simultaneously and then taking the correct decisions. (No prospect of ‘might is right’ for the political leadership of developing countries!) If the leadership is incapable of withstanding these stress tests, the ‘golden straightjacket’ could easily become a whalebone corset, designed and fitted by outsiders. South Africa has not had this problem.

The policy choices made

The policy choices in South Africa were embodied in the Reconstruction and Development Programme (RDP) which was drafted before the elections of 1994, virtually as a part of the manifesto process. The RDP comprises 5 pillars, namely ‘Meeting Basic Needs’,

⁴ ‘The State, Capital and Social Transformation’, a document of the Alliance Summit, June 1998

'Developing Human Resources', 'Building the Economy', 'Democratising the State and Society' and 'Implementing the RDP'.

The key value of the RDP was, and still is, in respect of its commitment to fundamentally transform the apartheid legacy. *It* is the essential *buy-in* ingredient.

Time and circumstance do not permit a thorough-going review – indeed, that it is the subject of a separate detailed study. However, it is for the purposes of this discussion useful to make the following observations:

- Performance against the objectives is truly mixed. Government has performed much better in those areas over which it has more direct control. In 'Meeting Basic Needs', there are areas like the number of houses handed over or the number of water connections where government has exceeded expectations. In areas which require the independent action of outside agencies, as with job creation in the 'Building the Economy' pillar, performance is poorest. There is also a set of objectives where time lags affect the outcomes, such as with the skilling and reskilling the workforce under the "Developing Human Resources" pillar.
- In the youthful enthusiasm which marked the period during which the RDP was drafted, some of the complexities of governance were not foreseen – so for example, the restructuring of the public service to ensure representivity has proceeded well but, the public service benefits more extensively from labour rights than the rest of the workforce. The quality and punctuality of services rendered (rather than financial resources available) leaves much to be desired – our weakness then in respect of what the RDP calls 'serving the people' and we in government have called "Batho Pele" (People First) is a result of the contradiction which results from the mismatch between rights and obligations in respect of the public service.
- Managing unpopular elements of even popular broad programmes like the RDP remains an extremely difficult exercise. In drafting the RDP, the macro-economic challenges were recognised, but given inadequate attention, perhaps

because it involved less popular choices. So, under the programme “Implementing the RDP”, the challenge is described as

Financing the RDP represents both a challenge and an opportunity to revive our economy and set it on a path to sustained reconstruction and development. We must finance the RDP in ways that preserve macro-economic balances, especially in terms of avoiding undue inflation and balance-of-payment difficulties. (at 6.2.3) and

The existing ratios of deficit, borrowing and taxation to GNP are part of our macro-economic problem. In meeting the financing needs of the RDP and maintaining macro-economic stability during its implementation, particular attention will be paid to these ratios. (at 6.5.7).

Yet, the hard options to undertake macro-economic reform, as articulated in the RDP document were never really accepted by some within the ANC and the tripartite alliance. It is for this reason, that some had seen GEAR⁵ as supplanting, rather than reinforcing the RDP. Not even a well-crafted resolution at the ANC 50th National Conference succeeded in modulating the intensity of the debate.

The resolution⁶, under the ‘Therefore Resolves’ section (@5.3), reads

The strategy for Growth, Employment and Redistribution (GEAR) is aimed at giving effect to the realisation of the RDP through the maintenance of macro balances and elaborates a set of mutually reinforcing policy instruments.

- One of the key challenges of government was to ensure that the RDP implementation became an everyday part of what government does. From April 1994 to April 1996 the RDP was implemented through an office of a Minister without portfolio. The office was closed and every line function department was required to

⁵ Growth, Employment and Redistribution (GEAR) a Macro-economic strategy introduced into parliament on 14 June 1996.

⁶ Resolution on Economic transformation of the ANC 50th National Conference, adopted at Mafikeng December 1997

take responsibility for RDP implementation as part of its normal operations. In the minds of some, this was perceived as a hostile act which terminated the RDP implementation. Whilst the implementation record will tell a very different story, this perception lingers because, as with the introduction of GEAR, it was perceived to be unpopular.

The Mechanisms of Voice to ensure Participation

The strongest mechanism of voice is in elections. To date, we have had two national/provincial elections (1994 and 1999) and two municipal elections (1995/6 and 2000). Two observations about these elections stand out – firstly, that voter preferences have remained more or less constant and secondly, that voter turnout has been high, given that voting is not compulsory. This says much about the first ten years of democracy given that in 1994 we had “Uhuru” elections.

Voice is intended to be strongest in respect of municipal government where we have undertaken substantial reform in December 2000, including the consolidation of municipalities from 843 to the present 284. In addition, the participation of residents is statutorily required by the Municipal Systems Act for the preparation of Integrated Development Plans annually and for regular accounting by ward councillors. These experiences are less heartening than voter turnout - partly, because the exercise is relatively new and inadequately understood. Furthermore, we have capacity constraints in many of our local authorities resulting from a combination of weak administration and an uneven quality of local leadership.

The same trends obtain in other areas, like School Governing Bodies where legislation established community governance of schools but the locus of strength of school governance is a function of race, class and geography. In essence then, the gaps between intent, as established in statute and practice, is an area which requires continuous attention and nurturing.

Outside of the formalities of government, the issue of voice arise in respect of the NGO's. The amplitude of this voice is often a function of proximity to alternate centres of power, such as the press. The difficulty in a democracy is in measuring what these NGO's truly represent. In South Africa we really have a mixed bag ranging from reasonably strong community based organisations to dial-a-quote-on-any-issue type NGO's. We need a

measure to ensure that representative voices are heard (both by government and the press) and those whose only saving grace is their connectedness, can be ignored.

The Credibility of the State Apparatus

The South African Constitution lays the basis for constructing a modern state with well-defined linkages between the various arms. (The issues of Constitutional and Democratic values will be the subject of a separate panel and hopefully more will be said about the place of the Legislatures, the Judiciary and the Institutions supporting Democracy during that discussion)

Let me confine my comments to the Executive Branch. We have had to construct 9 new Provincial Governments and 284 new municipalities, in addition to transforming national government and its parastatals. This process of refocus, of policy change, of re-equipping organisations whilst delivering on mandate has probably been the most exciting part of the first 9 years of democracy. In the areas of finance, for example, we have had to undertake the following reforms:

- Build a new national treasury – capable of leading enormous budget reform, in line with a change in policy direction; report to parliament and the people, more generally; vastly improve on the track-record of asset and liability management.
- Construct an entirely new Revenue Service – the premium we attach to our sovereignty requires that we minimise the finance gap. So, beyond changing tax policy, we have had to entirely restructure the agency responsible for collection.
- Liaise with provincial governments to ensure that their Treasuries are strong. This is ongoing work and requires a combination of legislative and political means (for example the Intergovernmental Fiscal Relations Act and the notion of ‘Team Finance’) and where necessary strong intervention to support (through the application of Section 100.1 of the Constitution)
- Rewrite the legislation and regulations for public finance management to improve on transparency and accountability.
- Reconstruct the relationship with a now independent central bank – including the redefinition of its mandate and the anchoring of its independence in an inflation targeting framework.
- Managing relations with donor governments and agencies

- Overhaul and establish a range of supervisory bodies for the financial sector to equip us to prevent crises and also to deal with new issues such as money laundering
- Re-equip the Development Bank of Southern Africa to be a truly development finance institution in Southern Africa
- Build new relationships with our neighbours in Southern Africa, through SADC and contribute to developing the mechanisms required by NEPAD and the African Union.
- Improving on participation in multilateral bodies – the Bretton-Woods Institutions, ECOSOC at the UN, the African Development Bank, the G20, the Financial Stability Forum, the Financial Action Task Force etc.

Every Ministry could tell similar stories of driving substantial programmes of reform, whilst delivering in manner in which performance is measured by outside agencies (See Chapter 9 of the Constitution) and refining policy as we advance. The scale of reform is unprecedented anywhere. It is this process across government which needs to be measured to determine the institutional credibility.

Are we as good as our word? Are we capable of delivering a democracy which is continually deepening? Can we shield the hard-won sovereignty? And, for the electorate, how would others perform in similar circumstances?

Conclusion

In South Africa, the challenge of democracy requires that we remain alive to the development imperatives. The imperative is shaped by the cleavages inherited – they exist in race, gender, geography and class. Our reconstruction endeavours demand that we remain mindful of these – we have to implement in a manner which recognises that the choices are indeed political and not merely the legal/technical Constitutional mandate. At the same time, we will continue to argue for multilateral decision-making and work to win a place within multilateralism for South Africa. Managing the four dimensions of governance – the quality of leadership, the policy choices, the mechanism of voice and institutional credibility has served us reasonably well, and will probably continue to do so. We have to

push hard for policy room and democracy against the mediocrity and risk of 'one-size-fits-all' globalisation.

We can offer our experiences for example and analysis – we remain of the view that experiences of transition are not easily transposable. We have examined the balances between rights and development elsewhere, we know that what we have here, is the product of the inimitable history of South Africa.