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Elite Compromise

How could so much hope following the fall of apartheid be dashed so quickly and with such devastating social and economic effects? Why did an optimistic period of political liberation and transition to democracy give rise to a macro-political structure with so little hope for generating real freedom? The answer, as always, is in the detail, in this case, the detail of the particular history of the transition to democracy and the detail of macroeconomic policy choices, the detail of a compromise amongst National Party (NP) and African National Congress (ANC) elites that maintained existing economic power relations rather than enabling their transformation and thus the transformation of existing power relations in the polity *and* the economy. As I shall argue in this chapter, the elite compromise was the result of a complex coincidence of interests and a lack of leadership in the face of the predominant global discourses of the day regarding how best to manage the economy in order to ensure, the new political leadership thought, the credibility of the post-apartheid state. They assumed incorrectly that conformity to these norms and discourses would be necessary and sufficient means of securing the necessary inflows of international capital or foreign direct investment (FDI). An unfortunate corollary of this, moreover, was that for all the talk of transformation in South Africa, systemically there has been little or no transformation of the highly unequal power relations and distribution of property and opportunity – the main legacies of how Dutch and British colonial administrations and the apartheid government accommodated themselves to corporate power in South Africa.¹ The elite compromise was counterproductive in the following two related senses. Given the inadequate response to socio-economic and political power relations that it entailed, the result has been quite the opposite of that intended: (a) the old economic elite,

¹ S. Terreblanche, *The History of Inequality in South Africa: 1652–2002* (Pietermaritzburg: University of Natal Press, 2002); S. Terreblanche, *Lost in Transformation* (Johannesburg: KMM Review Publishing, 2012), ch. 3.

only partially in the process of being transformed, do not have sufficient formal representation in parliament and so cannot act as a veto on policy formation, which generates uncertainty for investors in South Africa or South African government bonds; (b) unresolved social cleavages based on extreme levels of inequality and unemployment generate violent conflicts or the constant threat of them and their brutal repression, which exacerbates economic uncertainty. What follows is that South Africa remains a risky place in which to invest, at least in the eyes of potential international investors.

There is little doubt that the heady days of the end of apartheid were days of *extreme* uncertainty, periodic outbreaks of bloodletting on a scale bordering on civil war and palpable fear regarding the possibility of a peaceful future for South Africa. It is understandable, therefore, that the minds of the leaders of both opposing parties, the ANC as spearhead of the liberation movement and the NP as the government in power, were focused on stability, that is, on generating a *peaceful* transition to a *peaceful* democratic South Africa. Moreover, as discussed in the first chapter of this book, the international context was also important: the end of the cold war, the unchecked rise of liberal, constitutional, free-market democracies, the discourse of human rights, judicial review and associated legitimization of unelected courts as sources and soundboards for legislation. The result was an agreement or compromise between these two negotiating parties that fell in line with these demands, discourses and desires of the day and safeguarded the two main sets of interests of both parties: that private property and the supposedly very distinct 'cultural' groups would be safeguarded by a formal, equal and constitutional framework; that the election of political representatives would occur by some means of majority rule or popular democracy (without group rights to ensure a 'white' veto); and that political power would remain centralized around the party in power. The first was vital for NP acceptance and the second and third for ANC assent. The first set of components was secured by means of human rights and strong extra-political legal mechanisms such as the sovereignty of the constitution, judicial review and justiciable rights for all; and the second two were safeguarded via the electoral system of closed party list proportional representation, as discussed in Chapter 3.

In this chapter, I begin with a short historical account of the two components of this compromise: the political and the economic. I argue that the compromise was made in the interests of both sets of elites and at the expense of the interests of the majority of the population. A very important element of this was the decision taken, ultimately, by the ANC that they should *not* renege on apartheid debt and they should not risk frightening away the economic representatives of existing and potential domestic and foreign investors. As exemplified in their

management of public debt since 1994, they swallowed hook, line and sinker the economic orthodoxies of the age, in order they thought to enhance their sovereign power. The tragic irony of this decision is that not only has the exact opposite been the case – they now have less, not more, sovereign power – but it was made at the expense of righting the wrongs of the past through redistribution and the recalibration of power relations, that is, at the expense of the well-being and freedom of the majority of previously disadvantaged South Africans. As has been argued throughout, the freedom as power of most South Africans has, if anything, worsened since the end of apartheid. The inhumane and illegitimate regime of apartheid has been replaced by an equally inhumane if formally legitimate regime. The average South African citizen therefore has every reason to feel let-down, frustrated and angered by the ANC as political party in power, its erstwhile liberator. Whether the citizenry will, in the near future, be motivated to vote them out of power is another question entirely. For various complex reasons, mostly due to lack of power, information and the persistence of tradition in voting patterns, a positive answer to that question seems doubtful, though the results of the 2014 election may provide some interesting indicators.

Political compromise

The final, formal process of negotiation occurred over the substance of the Constitution, which was initially called the Multi-Party Negotiating Process (MPNP) and began on 1 April 1993 at the World Trade Centre, Kempton Park, and ended with the ratification of the South African Constitution on 10 December 1996 at Sharpeville, the scene of the notorious massacre on 21 March 1960, when the South African police opened fire on a crowd of ‘black’ protesters, killing 69 people. Despite the sharp disagreement and fraught negotiations over a number of central issues, for example, whether the constitution should include a bill of rights and whether that should itself include a right to property, the final outcome was claimed a ‘very progressive document’ founded on human rights and dignity for all with a bill of rights that does include a right to property.²

² L. M. Du Plessis, ‘A Background to Drafting the Chapter on Fundamental Rights’, in *Birth of a Constitution*, ed. de Villiers (Cape Town: Juta & Co, 1994), pp. 89–100; A. J. van der Walt, ‘Property Rights, Land Rights, and Environmental Rights’, in *Rights and Constitutionalism: The New South African Legal Order*, ed. van Wyk et al. (Oxford: Clarendon Press, 1996), pp. 455–501; R. Spitz and M. Chaskalson, *The Politics of Transition: A Hidden History of South Africa’s Negotiated Settlement* (Oxford: Hart, 2000); L. Hamilton, *The Political Philosophy of Needs* (Cambridge: Cambridge University Press, 2003); and L. Hamilton and N. Viegi Debt, ‘Democracy and Representation in South Africa’, *Representation*, 45.2 (2009), pp. 193–212.

During these constitutional negotiations, South African political and economic leaders seemed to have little option but to compromise on a number of fundamental matters. As has been argued elsewhere, even the framework itself was a very significant compromise, particularly in the light of ANC's avowed positions and the substance of its Freedom Charter, the statement of core principles of the ANC and its allies, officially adopted on 26 June 1955 in Kliptown. Thus, at a time of rapid historical transformation the constitution immunized against change a bill of rights, judicial review, and a number of extra-legislative or extra-parliamentary institutions for 'supporting democracy', known as the 'chapter nine institutions', such as the Human Rights Commission, whose structures and goals are outlined in Chapter 9 of the 1996 constitution.³

However, it is important to note that clandestine negotiations had begun as early as 1986, involving exiled members of the ANC and representatives of more liberal and academic components of the Afrikaner political establishment and some of the significantly more Anglophone captains of industry, in particular, those that controlled the core of South Africa's Minerals Energy Complex (MEC).⁴ Despite his release of Nelson Mandela and the unbanning of all previously banned parties, in 1990 president de Klerk explicitly rejected the principle of majority rule advanced by the ANC, and proposed the idea of group rights to ensure a 'white' veto. Thus initial, seemingly intractable opposition arose around two opposing concepts: power-sharing and majority rule. The logjam was broken by the ANC proposal for an all-party congress to negotiate the route to a constituent assembly. This paved the way for the Convention for a Democratic South Africa (CODESA One), convened in December 1991 and attended by 280 delegates from 19 political parties. Here

³ L. Hamilton, 'Human Needs, Land Reform and the South African Constitution', *Politikon*, 33.2 (2006), pp. 133–145; and for problems with the fact that constitutions immunize against change interests and power relations that obtain in a particular time and place; and that in order to shield present and future generations from the unchecked power of past generations and accept that reason is subject to error and change over time, and thus that it is important to presume the need for permanent revision to the constitution, see marquis de Condorcet, *Foundations of Social Choice and Political Theory*, trans., ed. I. McLean and F. Hewitt, 3–90 (Aldershot: Edward Elgar, 1994), pp. 410–411, 340–341; various letters from Thomas Jefferson to many other leading public figures, between 1789 and 1824, in T. Jefferson, *The Papers of Thomas Jefferson*, ed. J. P. Boyd et al. (Princeton: Princeton University Press, 1950–); J. Waldron, *Law and Disagreement* (Oxford: Oxford University Press, 1999); J. Waldron, *The Dignity of Legislation* (Cambridge: Cambridge University Press, 1999); S. Tsoeu-Ntokoane, 'The Politics of Constitutionalism in South Africa: Institutions Supporting Democracy', unpublished University of Johannesburg DPhil Thesis.

⁴ For details on these various figures and their machinations, see R. Harvey, *The Fall of Apartheid: The Inside Story from Smuts to Mbeki*, 2nd revised edition (London: Palgrave, 2003); B. Turok, *From The Freedom Charter to Polokwane: The Evolution of ANC Economic Policy* (Cape Town: New Agenda, 2008); Terreblanche, *Lost in Transformation* and M. Gevisser, *The Dream Deferred: Thabo Mbeki* (Johannesburg: Jonathan Ball, 2007).

the important agreement was reached that there would be a two-stage process of transition, with first an interim and then, later, a final constitution. Once de Klerk had gathered a mandate to proceed with this, via a referendum amongst 'white' citizens, a second session of CODESA was then convened; however, these negotiations stalled and remained so for many months. Throughout this period there was a great deal of turbulence and violence in the country, with a particularly vicious proxy 'war' carried out between some members of the ANC and the NP government-sponsored members of the local, traditional Zulu party and the apartheid puppet government of Zululand in Natal, *Inkatha*, later to be called the Inkatha Freedom Party (IFP). The ANC also launched a programme of 'rolling mass action' – 'a series of strikes, protests and boycotts as a reminder of the mass base of the ANC's power'.⁵

However, as the veteran commentator on South African politics, Allister Sparks, put it, behind the raging tensions and conflict lay a recognition of 'mutual dependency' between the NP regime and the ANC.⁶ A *bosberaad* (literally, 'bush meeting') in December 1992 enabled the development of trust and the further rise to prominence of those elements who were keen on a 'speedy transition', in particular, 'the core forces for democratic change as well as big business'.⁷ And the remaining intransigence was overcome by Joe Slovo's famous defence of the need for a 'sunset clause', a case for compromise: '[A] degree of compromise will be unavoidable... the key test for the acceptability of a compromise is that it does not permanently block a future advance to non-racial democratic rule in its full connotation... compromise may be acceptable as part of an acceptable settlement package'. This 'sunset clause' was inserted into the interim constitution, providing for compulsory power-sharing for a fixed number of years and a restructuring of the civil service, taking into account existing contracts and retirement compensation.⁸ The interim constitution, the details of which were determined by the MPNP, is vital for a number of reasons: it sets up the rules for power-sharing, the framework within which to hold the first democratic elections of 27 April 1994, and the general rules and principles that constrained the determination of the final constitution. In particular, it set out the guidelines for a Government of National Unity, it protected the jobs of civil

⁵ Turok, *Freedom Charter*, p. 42.

⁶ A. Sparks, *Tomorrow is Another Country* (Pretoria: Struik, 1994), p. 91, cited in Turok, *Freedom Charter*, p. 42.

⁷ ANC, 'Challenges of the Current Situation', Discussion Document 18 May 1993, cited in Turok, *Freedom Charter*, p. 43.

⁸ J. Slovo, 'Negotiations: What Room for Compromise' (mimeo), cited in Turok, *Freedom Charter*, p. 43.

servants and security personnel, it gave important powers to the nine provinces, it brought in a thoroughgoing Bill of Rights specified in the language of human rights and established a powerful constitutional court alongside guarantees of freedom of speech and the press. It was clear though that, at the end of it all, the ANC would take state power.

Within the new constitutional order, however, not only was the ANC's enactment of this power constrained by the interim constitution, but so too was the nature and substance of the final constitution of 1996, which would itself have to be written in accord with these general 'interim' principles and pressing need at the time to compromise and avoid conflict. The substance and nature of the interim and final constitutions were also, of course, heavily influenced by international discourses around constitutionalism and human rights at the time.⁹ The legacy this constitutional process has left is not, however, that which was envisaged, for obvious reasons: by focusing on the needs and conflicts of the present, the constitution essentially sacrificed efficient and just government in the future for stable and prudent government in the present context of transition. (As we shall see, the same is true of the elite compromise regarding economic policy.) As Thomas Jefferson argued in another context two centuries ago, it is this inevitable fact of constitutions in general, and particularly those generated as founding documents of a newly independent polity, that is, their being documents of their day generated by 'founding fathers' focused on the present and thus with little capacity for foresight, that makes the need for periodic controlled reformulations of constitutions vital for political freedom, at least once in every generation.¹⁰ I take this up again in the conclusion to this book, and propose a decennial constitutional plebiscite.

The results on the ground were decisions regarding the structure of the constitution and the nature of the electoral system, which were not only radical departures from their forerunners found under apartheid but, ironically, also probably the most telling bases for the lack of freedom as power through political representation in South Africa today. The first decision, in an overly literal application of the doctrine of the rule of law, makes the constitution sovereign; articulates the means and goals within the constitution using a set

⁹ H. Klug, *Constituting Democracy: Law, Globalism and South Africa's Political Reconstruction* (Cambridge: Cambridge University Press, 2000); Tsoeu-Ntokoane, 'Constitutionalism'.

¹⁰ In various letters from Jefferson to many other leading public figures, between 1789 and 1824, in Jefferson, *The Papers of Thomas Jefferson*; see also, L. Hamilton, 'Human Needs and Political Judgment', in *New Waves in Political Philosophy*, ed. C. Zurn and B. de Bruin (London: Palgrave, 2009); L. Hamilton, *Freedom is Power: Liberty Through Political Representation* (Cambridge: Cambridge University Press, 2014); and footnote 3 above.

of specific, supposedly unchanging and ‘compossible’ human rights¹¹; and entrenches mechanisms such as judicial review and extra-political institutions designed to uphold constitutional democracy in general and these rights in particular. Taken together, as I argued in Chapter 3, the effect is to undermine the significance of the country’s national assembly of elected representatives, the very idea of representative democracy and thus the agency and power of South Africa’s citizens.

The second decision only adds injury to insult in this regard. It is the decision regarding the best electoral system for a free, democratic South Africa. Ultimately, following much negotiation, both major parties decided that it was in their interests to opt for a closed party list system of proportional representation as opposed to either the first-past-the-post Westminster model of the apartheid era or a mixed proportional representation system, in which a specified proportion of members of parliament are chosen by parties and the rest are directly elected by constituents, as is the case, for example, in Germany and Ireland. Again, as I argued in Chapter 3, this decision has had dire consequences for political representation in South Africa. A closed party list system of proportional representation undermines the power of citizens to determine who governs and in particular how they govern. It is an electoral system that does not give citizens sufficient power over their representatives (as representatives of constituencies or otherwise) and therefore cannot provide them with the relevant power over how they represent them; it also does not enable a plurality of reflections of the electorate from which the latter can choose and about which it can judge. The resultant corruption, lack of service delivery and ever-increasing levels of mistrust and discontent in South Africa are manifestations of this lack of political freedom.

Ironically, the internationalization of the anti-apartheid movement not only helped generate the negotiated transition to democracy between two old foes – the NP and the ANC – but also, combined with the power *impasse* between them, helped generate an elite compromise: the replacement of one political elite with another, cosmetic political and economic changes that deferred to the interests and concerns of the present and the need for domestic and international capital and FDI at the expense of meaningful redistribution and institutional reconfigurations to address properly the injustices of the past.

¹¹ Contemporary libertarians argue that genuine rights are compossible in the sense that they yield a set, the members of which cannot yield conflicting verdicts, that is, properly construed, rights do not conflict with one another. H. Steiner, ‘Essay on Rights’, *Canadian Journal of Philosophy*, 26.2 (June 1996).

The desire by the two main players in the negotiated transition and during the early years of democratic rule to avoid violence – to avoid another Sharpeville or Soweto – is central to understanding the kind of democracy and freedom that this period generated for South Africa. The prudence or extreme caution of both main negotiating parties has left an unfortunate political and economic legacy for contemporary South Africa: extreme orthodoxy as regards macroeconomic policy and forms of economic and political representation that enable elite power at the price of the empowerment of South African citizens in general. And both betray the mark of strong international forces: in having become so internationalized, the nature of the problem in South Africa, although in some sense vital for keeping South Africa one step removed from the vertigo of violence, also constrained its capacity to generate novel political and economic institutions and policy that might really transform an otherwise very warped and unequal society, economy and polity. That South Africans have had to live and die through another massacre – Marikana – speaks volumes for the consequences of this elite compromise: Marikana provides such vivid echoes of Sharpeville, not just because it was a massacre perpetrated by police on downtrodden citizens, but also because it laid bare the cooptation amongst democratic South Africa's economic and political elites, an elite compromise that has worsened rather than reduced the potential for social cleavages, conflict and destruction.¹²

Economic compromise

It is characteristic of the many waves of decolonization and national independence that they are followed by a process of extensive borrowing in order to fuel economic growth and development. In 1994 the new South African government bucked this trend. It had inherited an economy in disarray and the new political elites had before them three possible options. First, they could default on apartheid debt. Second, they could refinance existing debt with more debt from international institutions to address the urgent issues of income redistribution and economic transformation. Third, they could seek to stabilize the economy and reduce public debt by adopting an austere fiscal programme. They chose

¹² Cf. The arguments put forward towards the end of the apartheid period in the academic journal *Politikon*, the broader grey press and amongst many of the old guard who were wary of real change regarding consociation between elites as a means of avoiding cleavages and conflict amongst countries in transition to democracy, drawing especially on A. Lijphart, *The Politics of Accommodation* (Berkeley: University of California Press, 1975); A. Lijphart, *Democracy in Plural Societies* (New Haven: Yale University Press, 1977).

the third option. Why did they make this decision and how has it shaped the political and economic development of democratic South Africa?

The choice was made in order to gain greater policy independence from creditors and portray an image of sound fiscal management to potential international investors. In accordance with the predominant economic orthodoxy regarding representative democracy, public debt and state credibility, the new South African elite assumed that a combination of secure institutions of representative democracy and 'prudent' monetary and fiscal management would enhance the state's credibility and thus make it less expensive for them to finance the transformation of South Africa's economy. However, the consequences of the decision were quite the opposite. The South African government's austere response to debt made its bonds more attractive. It has therefore become more, not less, dependent on the constraints of creditors, that is, more subject to investor scrutiny and sentiment. And, yet, the brutal irony is that, in the eyes of investors, South Africa still lacks creditworthiness and remains a relatively risky place in which to invest, and thus, relative to other young representative democracies, the servicing of South Africa's public debt remains expensive.

Parallel to the formal debate around the nature of the rules that would, ultimately, be codified in the new, final constitution of 1996 and the related forms of political representation, particularly as regards the legislature and the executive, there was a semi-formal or informal debate in which national economic power – particularly that of the leaders in the MEC and banking sector – and the new political elite defined an economic 'constitution' that would characterize the new South Africa. Clandestine discussions in this 'forum' began as early as 1986 and, over time, generated an economic compromise that included forms of representation and a parcelling out of the main economic powers and interests in South Africa in a highly problematic fashion: a form of commercial representation of the main economic powers and interests in South Africa that had dire consequences for both economic growth and transformation in South Africa. This is the second under-discussed compromise and form of representation that, I maintain, determine to a significant degree the extent to which South Africans lack freedom today. Given the transformation in political power, it was clear to most of those involved in the negotiated settlement that the interests of the existing economic elite, at least initially, would not be represented in parliament. Although the constitution of 1996 provided a legal safeguard for the general interests of the economic elite, in the form of a right to property, in and of itself it did not ensure that the main economic powers could retain effective control over the economy. Their effective control over the economy was

secured or at least bolstered by an informal agreement between these parties, that is, between the new political elite and the old economic elite, not entirely unlike the consensus of post-1948 South Africa between big business and the new Afrikaner political elite. This agreement was made possible by the fact that it became obvious very quickly to all involved that the old economic elite held a vital card: they constituted the majority of the existing creditors for the South African state and their credit was a basic prerequisite for a stable, if transforming, South Africa.

And, yet, the harsh ironic reality is that, in the eyes of investors, South Africa still lacks creditworthiness and remains a relatively risky place in which to invest, and thus, relative to other young representative democracies, the servicing of South Africa's public debt remains expensive.¹³ In other words, both of the two main pillars of this informal agreement failed to sustain the conditions for the attainment of the intended objectives of the original decision regarding public debt. South Africa's creditworthiness has not improved and the new South African government does not have greater control over policy formation. Rather the prudent management of public debt and the policy priority given to equilibrium and fiscal and monetary discipline simply safeguarded the interests of the existing creditor class (and the interests of potential investors) to the detriment of social spending, redistribution and transformation.

The behind-the-scenes agreements, assurances and concessions that were made during this period provided the necessary means to ensure that monetary and fiscal policy would not undermine the interests of those who had the means and potential to continue to act as creditors for the South African state. The quick and sorry demise of the ANC's 'Making Democracy Work' policy is a case in point, indicative of the way in which the elite economic compromise sacrificed many of the ANC's previously stated goals for the perceived absolute priority to secure monetary and fiscal policy that was attractive to international markets. 'Making Democracy Work' was a policy proposal produced by the ANC-sponsored Macroeconomic Research Group (MERG) in November 1993. As an attempt to turn the general promises of the Freedom Charter – for housing and health care – into practical policies, it was the most important research base for the ANC in the early stages of its unbanning.¹⁴ However, it only operated between 1991 and 1993 and most of its policy proposals never saw the light of day. The whole project was dropped as part of the horse-trading that constituted

¹³ Hamilton and Viegi, 'Democracy and Representation in South Africa'.

¹⁴ Macroeconomic Research Group, *Making Democracy Work: A Framework for Macroeconomic Policy in South Africa* (Cape Town: Centre for Development Studies, 1993).

the negotiations between the representatives of the old economic elite and the new political elite.¹⁵ The same fate befell the first economic policy of the ANC government, the Reconstruction and Development Policy (RDP), a document that had been heavily influenced by MERG. Some have argued that the ANC leadership was simply outmanoeuvred in these negotiations.¹⁶ This may, in part, be true, but even as they make this argument, these commentators provide evidence for the ANC's active involvement in this process. Take, for example, the central role played by Thabo Mbeki, who made several key revisions to the ANC's economic programme to address the concerns of top business people and industrialists, such as Harry Oppenheimer, in all likelihood with the approval of Nelson Mandela, who was not exempt from the allures of the latter's riches – the two meeting frequently for lunch and dinner in this period.¹⁷

In terms of representation, the main economic agents – the top business people and industrialists – essentially act as informal representatives of existing and potential national creditors (and owners of capital more generally). In other words, those individuals who have the means to purchase South African government bonds *identify* with the main economic agents and thus feel that their interests are being represented by them. This is very important as the market or, more exactly, potential creditors respond to whether or not their interests will be defended within the formal structures of a state's representative democracy. If they feel they will be, they feel less uncertain about the course of future macroeconomic policy and thus more willing to invest than they would otherwise. Their interests can be defended either by representatives from parties that enjoy the support of (potential) creditors or by representatives with whom they identify, but who may not formally represent creditor interests. In both cases, the creditors can only be sure that their interests are being accorded *political* representation if their agents or the representative with whom they identify are members of the formal institutions of political representation, that is, are members of parliament. What is peculiar in the case of South Africa is not the presence of this kind of representation, but the fact that this group of representatives is relatively homogeneous and it did not expect to be represented

¹⁵ N. Nattrass, 'Politics and Economics in ANC Economic Policy', *African Affairs*, 93 (1994), pp. 343–359.

¹⁶ N. Klein, *The Shock Doctrine* (London: Penguin, 2007), pp. 200–206; W. Gumede, *Thabo Mbeki and the Battle for the Soul of the ANC* (Cape Town: Zebra Press, 2005).

¹⁷ On Mbeki, see Gumede, *Battle for the Soul*, pp. 33, 39; on Mandela, see Terreblanche, *Lost*, ch 4; and for more on the political economic motivations behind the shift in economic policy of the ANC towards an orthodox fiscal and monetary management, see A. Habib and V. Padayachee, 'Economic Policy and Power in South Africa's Transition to Democracy', *World Development*, 28.2 (2000), pp. 245–263.

in parliament, that is, by the democratically elected political elite. In fact, the interests of the old economic elite, whose continued support and presence as creditors are vital for economic stability and state credibility, are still represented by the small number of relatively homogeneous economic agents at the helm of South Africa's economy, especially in the financial and MEC sectors.¹⁸ Aware that they were unlikely to have their interests represented in parliament, they ensured that the constitution of 1996 secured these interests in its vaunted bill of rights, a set of rules for South Africa's nascent representative democracy that safeguards universal suffrage without seriously jeopardizing the economic power of capital in general and national creditors in particular.

South Africa is unusual as a result of the manner in which the main economic and political representatives have been marked by its history of racial discrimination: the economic elite is homogeneous in the sense that it was then and still is largely dominated by a relatively small group of 'white' capitalists, industrialists and families and it did not expect to be represented within parliament. At least in terms of local and international perception, the new ANC government would first and foremost represent the interests of the previously disenfranchised 'black' majority. (Whether in fact the ANC now comes even close to defending the interests and helping to meet the needs of the previously disenfranchised is doubtful.) The predominantly 'white' economic elite may have courted and been courted by the new predominantly 'black' political representatives, but it could not assume that its interests would find secure political representation within the institutions of democratic South Africa. Thus, under the current conditions, the power of these economic representative agents operates as purely economic power to a much greater extent than is the norm in other parts of the world. There are, of course, exceptions to the rule, but primarily this situation of lack of overlap, as it were, between economic and political representatives is more obvious and stark in the case of South Africa as a consequence of the extent to which it is still an issue of race: the policy of Black Economic Empowerment (BEE) only really runs skin deep; it has added a few 'black' figureheads, but has yet to transform the identity as a whole of the representatives of economic power in South Africa, that is, the CEOs of the relatively few large firms that dominate the South African economy.¹⁹

¹⁸ For details, see Turok, *Freedom Charter* and Terreblanche, *Lost*.

¹⁹ See Terreblanche, *Lost*, chs 4 & 5 for the identity of the main controllers of the South African economy, especially the MEC, that is, those individuals who constitute the bulk of domestic creditors and representatives for potential international investors: still predominantly 'white'.

South Africa's inability to gain the levels of creditworthiness that ought to have been the result of constituting representative democracy is explained by one of the main consequences of the negotiated settlement: the economic elite does not enjoy formal, political representation and thus does not control a 'veto point'. In other words, it does not have strict veto power over political decision-making. (A 'veto point' is a political institution, the holder of which, as specified by a country's constitution, has the power to block a proposed change in policy.²⁰) International investors also thereby lack a 'veto point', as the domestic economic elite represent their interests, in the sense that they identify with one another's interests, and thus they deem South Africa a risky place in which to invest. The uncertainty generated by the fact that the economic elite are not in formal control of a veto point is only made worse by the inability of existing economic policy effectively to redistribute and recalibrate power relations sufficiently to empower the citizenry as a whole and thus reduce the possibility of often violent industrial action, service delivery strikes and general discontent. The fact that the new political elite does not transform macroeconomic policy to attain these ends is a complex historical matter that has to do with the lack of accountability in the macro-political structure of South Africa's democracy, the persistence of economic orthodoxies, even following the global financial crash of 2007 and its continuing aftershocks, and the continued economic dominance of financial and MEC-related capital in South Africa. That the ANC government in power is incapable or unwilling to properly confront these forces speaks volumes about its lack of courage or its poor political leadership or its sheer self-interested corruption, as it acts as not much more than a rentier class atop a distorted economy or, more likely, all three.

The orthodox argument regarding public debt and representative democracy holds that representative democracy is a necessary (and in some instances even a sufficient) condition for credibility, that is, that its institution reduces uncertainty and thus increases the value of a state's bonds, which means it becomes less expensive for a government to finance its activities.²¹ The case of South Africa undermines this orthodoxy too. Since the interests of the economic elite are not *guaranteed* formal political representation within the existing, exemplary

²⁰ For more on 'veto points' and 'veto players', see G. Tsebelis, *Veto Players: How Political Institutions Work* (Princeton: Princeton University Press, 2002) and D. Stasavage, *Public Debt and the Birth of the Democratic State: France and Great Britain, 1688–1789* (Cambridge: Cambridge University Press, 2003).

²¹ D. C. North and B. R. Weingast, 'Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth Century England', *Journal of Economic History*, 49.4 (1989), pp. 803–832; J. Macdonald, *A Free Nation Deep in Debt: The Financial Roots of Democracy* (Princeton: Princeton University Press, 2006); cf Stasavage, *Public Debt*.

political institutions of representative democracy, the main group of economic representatives in South Africa constitutes a constraint on political power; they are not part and parcel of the structure of political representation. This has significant negative effects on the perception of South Africa's credibility amongst existing and potential owners of its public debt. Thus the real determining factor regarding credibility is not the institutionalization of representative democracy, but whether or not the representatives of actual and potential creditors hold the relevant formal veto points.

Stability, continuity, economic austerity and internationalization

This decision to focus on stability, continuity and economic austerity and its unintended, problematic consequences on levels of poverty, inequality and unemployment are brought out best by delving a little deeper into the details of the example of how the post-apartheid government managed public debt.

The initial outcome of the development of the new forms and dynamics of formal and informal representation discussed above was that the Mandela Government of National Unity initially retained NP appointees at the National Treasury and the South African Reserve Bank. Nelson Mandela's first treasury minister was Derek Keyes, CEO of mining group Gencor, and 'a well-known establishment personality in the apartheid era,'²² who was appointed by de Klerk, and who subsequently left after four months for personal reasons. Mandela's second treasury minister was a professional banker by the name of Chris Liebenberg, CEO of banking group Nedcor. Moreover, Chris Stals, a staunch supporter of the apartheid regime, was retained as Governor of the South African Reserve Bank. This retention of extant personnel and the character of subsequent appointments were important indicators of the desire by the ANC to stress continuity and stability.

The new ANC government focused on continuity as opposed to radical transformation for two related reasons. First, they felt the need to retain the confidence of existing domestic 'white' business people and prospective international investors. In other words, this imperative has its source in their desire to keep their side of the bargain or contract as regards fiscal policy and

²² Turok, *Freedom Charter*, p. 246.

the continuity of the economic order. Second, their emphasis on continuity can also be explained by the fact that the ANC government inherited an economy in complete disarray. The levels of fiscal mismanagement of the apartheid regime from 1980 until 1994 were staggering. While GDP had grown at an average of 3.3% between 1970 and 1979, and 2.2% between 1980 and 1989, it grew at a paltry 0.2% between 1990 and 1994. Inflation had risen at an average of 14.6% between 1980 and 1989, and interest on public debt amounted to the largest budget item during this period.²³ Between 1989 and 1994, the government deficit increased from R91.2 billion to R237 billion (in current prices), which Sampie Terreblanche regards as nothing more than ‘reckless white “plundering” in the final years of white supremacy and, therefore, as another example of Afrikaner/white corruption.’²⁴ The ANC government took the prudent step of attempting to stabilize the ship of state first before embarking on any expansive and directly transformative policies. They decided to transform the treasury prior to flooding it with lavish borrowings.

Figure 4.1 illustrates the dynamic of total government debt in South Africa from 1970 to 2005 as percentage of GDP. From the data it is clear that the most significant accumulation of debt happened at the end of the apartheid period.

Figure 4.1 Debt dynamics in South Africa: 1970–2005

Source: *International Financial Statistics*

²³ Budget Review 2000, Available from: www.treasury.gov.za [accessed 2 November 2011].

²⁴ Terreblanche, *Lost*, p. 58. He goes on to claim that the question of whether the apartheid regime of 1948–1994 was more or less corrupt than the ANC government since is one that can unfortunately not be answered yet, despite popular perception that the ANC government is much more corrupt.

Nevertheless, the explosion of debt at the beginning of the 1990s has its origin in the crisis and economic policy response of the apartheid government in the 1980s. As can be seen from Figure 4.2, from the beginning of the 1980s any attempt to stabilize expenditure as a percentage of GDP had been abandoned and from 1989 revenues had fallen dramatically, creating the significant explosion of debt that the country experienced in the following years.²⁵

It is also noticeable how, in the first 14 years after the end of apartheid, the effort to put public finance under control was the main driving force of Treasury policies, starting with the first annual budget of the new democratic government: note in Figure 4.2 the marked dip in expenditure in 1994.

Things began to change in 1996, at least as regards personnel. Trevor Manuel, the first 'black' Finance Minister, was appointed. His first period ran for the remaining 3 years of the Mandela government, 1996–1999, and he was in charge until the 2009 elections. The market was initially hostile to his appointment as a

Figure 4.2 Revenues and expenditure dynamics in South Africa, 1970–2010

Source: South African Reserve Bank

²⁵ E. Calitz, S. du Plessis and K. Siebrits, 'An Alternative Perspective on South Africa's Public Debt, 1962–1994', *South Journal of Economics*, Economic Society of South Africa, 79.2 (2011), pp. 161–172, show that the published record of public debt tends to attribute to the last years of apartheid a fiscal indiscipline that was actually developing much earlier, once the actuarial pension fund deficits and government debt of the apartheid homelands are considered.

consequence of racist assumptions regarding his competence as well as fears that he might begin to embark on a process of nationalization of large enterprises. In fact, on 14 June 1996, soon after his appointment, he proposed quite the opposite in the form of a new macroeconomic policy, the Growth, Employment and Redistribution (GEAR) strategy.²⁶ This strategy adds another vote to the 'Washington Consensus' in that it focuses on privatization, government 'right-sizing', the creation of incentives for FDI such as tariff reduction, the reduction of the fiscal deficit (which in 1994 had reached 9% of GDP) and productivity-linked wage rates.²⁷ Needless to mention, very soon after his first budget speech, these events allayed most of the market's fears.²⁸

In other words, this part of the rationale for the choice of option three has to do with the sentiments and goals of a new regime and how these are linked to the history of debt in South Africa.²⁹ The new regime inherits from the apartheid regime a series of problems that are the consequence of two related legacies of apartheid: irresponsible borrowing and an over-dependence on national capital. The new political elites were intent on reversing both of these trends. They wanted to create a fiscal environment characterized by responsible borrowing that would simultaneously make South Africa attractive in the eyes of international investors – both in the sense of FDI and enhancing the creditworthiness of South African state bonds – and allow them to gain independence from national capital. Their response was an austere fiscal policy and a concomitant drop in capital expenditure and taxation, which only since 2011 is beginning to be reversed, but with little tangible and meaningful outcomes on inequality and unemployment or, indeed, infrastructure.

Coupled with this desire to gain autonomy from national capital is the hope that they could also, consequently, insure against dependence upon international financial institutions. Many of the new political leaders (often in exile) experienced decolonization in the rest of Africa and the subsequent condition of severe indebtedness of many independent African states. They had also observed the fate of populist policies and economic instability in many Latin American countries in the 1970s, the 1980s and the 1990s as one debt crisis

²⁶ T. Lodge, *Politics in South Africa: From Mandela to Mbeki* (Cape Town: David Philip, 2002), p. 26.

²⁷ Lodge, *Politics in South Africa*, p. 25; D. Davis, 'From the Freedom Charter to the Washington Consensus' in *The Real State of the Nation: South Africa After the 1990s, Development Update (special edition)*, ed. D. Everatt and V. Maphai, 4.3 (2003), pp. 31–48.

²⁸ It is ironic that the market reacted with equal nervousness when Minister Manuel announced his resignation in September 2008, at the time of President Thabo Mbeki's recall by the ANC, about which more is discussed in the main text below.

²⁹ See Minister Manuel's 2007 budget speech, Available from: www.treasury.gov.za [accessed 22 March 2009].

followed another. And, finally, many of them also observed firsthand the collapse of big-bang transformation policies in the former eastern block. The issue of debt and a cautious approach to transformation became central to any planning of public policies for growth and development. Thus although this is a story that has very specific South African characteristics, its origin can in part be traced back to the experiences and failures of development policies around the world in the decades before 1994. Thus the overriding motivation behind the new political leaders' choice of option three was their desire to properly harness and retain the sovereignty of the South African state, in other words, to wrench power from national creditors and avoid a loss of autonomy to international creditors and financial institutions. This claim is given extra credence by a claim made by the new governor of the Reserve Bank, Gill Marcus, who, as the then chair of Parliament's finance committee, played a central role in stabilizing the debt-ridden economy the ANC government inherited. At the time it was she who convinced her party comrades that they did not have a 'blank slate' and that if South Africa's 'huge debt' and 'massive tax shortfall' were not addressed 'it [South Africa] was likely to land up in the hands of the IMF ... [and] we certainly had not worked this hard for our liberation to hand it over to the IMF'.³⁰ Under these conditions and given the state of the economy at the time, even with the advantage of hindsight, selecting option three seems a prudent choice.

Understood in these terms, it is easy to notice a parallel between these choices and those finally made within the constitutional process that took place within CODESA and the MPNP, culminating with the ratification of the Constitution on 10 December 1996 at Sharpeville.³¹ Despite evident disagreement and fraught negotiations over whether the constitution should include a bill of rights, and whether that should itself include a right to property,³² the final outcome was a very progressive document founded on human rights and in particular the right to property. In the final document there is some qualification of the right to property understood in terms of imperatives in line with the 'national interest', but these are to cover the need for land reform.³³ For obvious reasons, the fact

³⁰ P. Green, 'Banking on Integrity', *Mail & Guardian*, 24 July 2009; see also A. Hirsch, *Season of Hope: Economic Reform under Mandela and Mbeki* (Pietermaritzburg: University of KwaZulu-Natal Press, 2005), pp. 65–105 for a comprehensive insider analysis of the ANC economic policy in the first years of the Mandela government. As he states (p. 69), 'In order not to get too indebted to those who could turn their debt against them, they had to be conservative and pander to some of their prejudices'.

³¹ T. H. R. Davenport and C. Saunders, *South Africa: A Modern History* (London: MacMillan, 2000), pp. 559–572; Spitz and Chaskalson, *The Politics of Transition*, p. xiii.

³² For more on these matters, see Du Plessis, 'A Background to Drafting the Chapter on Fundamental Rights'; van der Walt, 'Property Rights, Land Rights, and Environmental Rights'; Spitz and Chaskalson, *The Politics of Transition*; and Hamilton, *Needs*.

³³ For more on how this has affected delivery on land reform see Hamilton, *Needs*, pp. 173–184; and Hamilton, 'Human Needs, Land Reform and the South African Constitution'.

that the right to private property is listed within the Bill of Rights was enough to satisfy the owners of capital. Thus the form of the final constitution of 1996 is very much determined by the perceived need to safeguard the interests (property) of the capital-owning class; without this safeguard this class and the old elite under which it had flourished would not have lent their support to the new political elite. As I have argued, since the outgoing elite were unlikely to be represented within the incoming majority ANC government, the constitution offered them the main means of safeguarding their interests.

This is clearly evident with regard to the right to property. Although the constitution provides a comprehensive list of individual entitlements or rights that the framers determined would be necessary for transformation, the ability to actualize these rights depends upon resources and their distribution. For example, in order for a new citizen without property to make proper use of these enshrined rights, in particular the right to property, they must first acquire property. The constitution stipulates a right of access to property, but this is weak in the face of a similarly enshrined right to property (both in clause 25 of the Bill of Rights) as well as a well-entrenched property-owning status quo. The only realistic means by which a new citizen without property can acquire property is if fiscal policy ensures the redistribution of property. However, if the nation's debt and wealth are concentrated within the small group of property owners whose interests are likely to be directly affected by this kind of policy, as is the case in South Africa, they are likely to make use of their unique position of power to hinder the process of property redistribution. As a consequence of what this entails, they will therefore act in a manner counter to transformation and the general actualization of rights: they own the debt and ensure that fiscal policy follows an equilibrium path, which they themselves define. In other words, so long as they retain the debt, they retain the power to discipline the government by dint of the fact that the state cannot function without their credit. All governments need creditors, even under conditions of austerity, and so creditors are in a privileged position as regards the formation of fiscal policy. Therefore in a national context, the only way to transform under these conditions is either to default on debt; expropriate property and distribute; or gain a modicum of independence from national lenders by reducing indebtedness. The new ANC government chose the last, most conservative option, with the goal of eventually placing sovereignty in the hands of all of the citizenry, if its rhetoric is anything to go by. But in doing so, it surrendered the only effective means of enabling the rest of society to actualize their rights, for without redistribution they remain in a condition in

which they are lacking the resources to do so. The hope is that the process of ‘transformation through austerity’ would generate, ‘in the end’, sufficient growth to eliminate any distributional constraint. However, this depends on two unstable variables – growth and continued economic sovereignty. And, as John Maynard Keynes famously put it: ‘But this *long run* is a misleading guide to current affairs. *In the long run* we are all dead.’³⁴

The alternative options of reneging on apartheid debt and accessing aggressively international official financial institutions to finance economic and social reform were not considered feasible. The choice of cautious reform is actually quite unique in the context of dramatic political and economic regime change. At least since the French Revolution, history is replete with examples of shock therapies, often involving reneging on debt, radical land reform, nationalization (or privatization) of natural resources, in general radical and fast changes in economic and political institutions. In the case of South Africa, the imposition of shock therapy would have been to disregard the constraints imposed by the main economic representatives and their ‘constituents’ and promote economic equality through land reform and debt cancellation. The price might have been economic isolation and stagnation for a considerable period of time, although the chance that this would have been the result must be tempered by odious debt considerations and the fact of significant international goodwill following the end of apartheid in South Africa.³⁵ Moreover, the potential benefits of this admittedly more risky option would have been so great that they would have outweighed the risks. The conservative choice of option three, in contrast, constituted a decision in favour of stability, continuity, austerity, internationalization and the delegation of economic oversight to a yet-to-be-transformed economic elite.³⁶ Until this elite, or at least its representatives,

³⁴ J. M. Keynes, *A Tract on Monetary Reform* (London: MacMillan and Co., 1923), p. 80.

³⁵ ‘Odious debts’ are debts that have been incurred by a government that was not democratically chosen, and the borrowed money might even have helped a brutal regime stay in power. Given this, considerations of situations of odious debt marshal the associated moral case for debt forgiveness, maintaining that the citizens of countries under these regimes, especially once they are no longer in power, ought not be saddled with the debt incurred by these regimes, for example, Mobutu’s regime in Congo, Pinochet’s regime in Chile and that of apartheid South Africa – in other words, there exists a strong moral argument that South Africa in transition had no moral obligation to repay the debts incurred under apartheid. P. Adams, *Odious Debts: Loose Lending, Corruption, and the Third World’s Environmental Legacy* (Oxford: Earthscan Publications, 1991); J. Stiglitz, *Making Globalization Work* (London: Penguin, 2007).

³⁶ Ronnie Kasrils, ANC veteran and a government minister until 2008, bemoans this last move in particular:

I was as guilty as others in focusing on my own responsibilities and government portfolios and leaving the economic issues to the ANC experts. This was a dire error and I believe we are paying for such a lapse at huge cost. Too often both the revolutionary soldier and political

is completely transformed, this choice also ensures that the representatives of creditors are unlikely also to be represented in the formal structures and institutions of the government; in other words, it ensures that they do not acquire a power of veto over government policy, unless of course they are given access via other means, such as the electoral success of a party that does formally represent their interests.

Increased credibility?

The choice made in 1994 saw economic discipline and austerity as one of the main means of consolidating representative democracy and thus increasing the credibility of the South African state. In this sense the new political elite were partially correct. In doing so South Africa has successfully structured its economy in a manner that gives rise to an increase in its creditworthiness. One of the main indicators of accountability and credibility for financial investors is the existence of consolidated institutions of representative democracy.

Two important things follow from this state of affairs. First, the South African government has managed to acquire the kind of independence in its policymaking that it was seeking: 'The managers of public finance do not need to serve other masters than those to whom they profess loyalty.'³⁷ Therefore, spending in service delivery to the general population, education, housing and social protection has increased exponentially, at least of late. However, second, the internationalization of the economy produced by the increase of creditworthiness has meant that the actions and decisions of the South African government are now regulated and disciplined to a much greater extent by the interests and sentiments of international market participants. The state has no sovereign relation to these investors and most are, obviously, not citizens and are therefore not represented formally within any of the institutions that constitute representative democracy in South Africa. They are not even part of the informal national economic forum that produced the economic compromise before and post 1994. The only relation that exists is through markets and the sentiments

activist leave economic affairs to the specialists. My greatest mistake is having neglected economic study. Would-be revolutionaries need to wake up every morning and exclaim: 'It's the economy, stupid! Understand it!'

R. Kasrils, *Armed & Dangerous: From Undercover Struggle to Freedom*, updated edition (Johannesburg: Jacana, 2013), p xxiv.

³⁷ Lodge, *Politics in South Africa*, p. 25.

and moods that affect these markets. This was not what was intended. The programme of austerity was chosen specifically as the best means of securing greater independence for the new South African government, but the result is in fact increased interdependence on the conditions of other emerging markets and the sentiments of international investors.

The measure that best maps the historical events that we have described is derived from the analysis of the fluctuations of the yield curve on government bonds.³⁸ Put simply, the idea is that a change in political or economic expectations will have an effect on the evaluation of the same asset at different dates of maturity. If the market expects a political crisis, long-term investment will be more risky relative to short-term investment, thus affecting the relative returns. Using this property of the yield curve of government debt, we estimate a measure based on the deviation of the yield curve from the long-term equilibrium relationship and we call it a time varying risk premium.³⁹ In Figure 4.3, the solid line is the time-varying risk measure on South African government bonds from 1981 to 2007, whereas the dotted line is the underlying short-run fluctuations from which this

Figure 4.3 South Africa 1981–2007 – Estimates of risk versus historical events

³⁸ For technical details, see J. Fedderke and N. Pillay, 'A Theoretically Defensible Measure of Risk: Using Financial Market Data from a Middle Income Context', *ERSA Working Paper*, No. 64 (2007). Essentially the measure extracts a risk measure from the co-integrating relationship between yields at different maturity. The time-varying risk premium is chosen for its ability to match historical events as shown in Figure 4.3.

³⁹ I say 'we' here and in what follows as the remainder of this section is taken from research Nicola Viegi and I produced together. I would have been at sea without his technical knowhow.

measure is derived through a process of filtering. The solid line is derived using a Hodrick–Prescott filter on the residuals of the co-integrating relationships between three months, three years and ten years of government bond yields. The vertical lines represent historical events that help evaluate the ability of this risk measure to capture the real market response to events. So, for example, the tricameral referendum of 1983 seemed to be a period of relatively good evaluation by the creditors of the prospect of the country. This impression was very rapidly reversed with the dramatic increase in political conflict in the second half of the 1980s and with the debt standstill in 1985. The legalization of the ANC seems to have been another moment of relative optimism, followed by the uncertainty of the pre-election period. After the election, and especially with the introduction of GEAR in 1996, we observe a process of stabilization of expectations with a series of fluctuations in correspondence with international economic uncertainty.

We submit that this measure captures quite well past political and economic uncertainty. If this is the case, how do we evaluate the volatility and overall risk? The most important thing to note is that even following political stabilization, the country is still evaluated with a degree of suspicion by international markets. Although the average fluctuation seems to be reducing, especially after the second election in 1999, it is still substantially different from any concept of an equilibrium relationship. The mean risk today is still very similar to the mean risk prior to 1994.

A useful comparison is the one between our market risk measures and political risk measures we find in the literature. These political risk measures, such as the Polity index, the Fedderke, De Kadt and Luiz (FKL) index (2001) or the World Bank political stability index, tend to focus on institutional stability and political conflict. As seen in Figure 4.4, the FKL index corresponds to the market index of risk we calculated for the last 10 years of apartheid. However, with the advent of democracy and the peaceful transition, institutional risk and market risk diverge considerably. Although all the indices show a marked increase in institutional quality and political stability after the introduction of democracy, the market still attaches a significant risk premium to South African debt.

Thus institutional quality tells us little about the way a country is seen by international creditors. Even the financial market ‘rating’ is not enough. A more directed measure of the market sentiment towards the country still shows a certain degree of caution and a significant degree of uncertainty about the country. The presence of residual uncertainty is also evident if we analyse a composite political risk index provided by the PRS group, from 1984 to 2008 as in Figure 4.5 below.

Figure 4.4 Market risk versus institutional risk
Indexes rescaled for comparison

Figure 4.5 Market political risk analysis – PRS data
Source: <http://www.prsgroup.com/>

After a golden age of political goodwill from 1994 to 1998, market participants show persistent uncertainty about the political risk implied by social and economic indicators forming the underlying structure of the index. This political risk index is an aggregation of indicators of specific socio-economic and political indicators, namely, government stability, socio-economic conditions, investment profile, internal conflict, external conflict, corruption, military in politics, religion in politics, law and order, ethnic tensions, democratic accountability and the quality of the bureaucracy. A principal component analysis of the underlying indices shows that, while market participants recognize the stability of formal democratic institutions (which drives the first principal component of the indexes), much less progress is recognized in the fields of institutional efficiency and socio-economic transformation.

Figure 4.6 shows the two main trends in the data comprising the political stability index. The first component P1 summarizes the formal democratic gains obtained after 1994. This is certainly positive and it is seen as positive by international investors. The second component, on the other hand, summarizes the perception that South Africa is a country where socio-economic conditions,

Figure 4.6 Principal component analysis of political country risk by PRS group

investment climate, corruption, crime and the quality of bureaucracy have not improved significantly or have worsened after democratization.⁴⁰

This is important because it suggests that the government is subjected to a high degree of scrutiny by the markets.⁴¹ And, moreover, any significant change in policies must be, as it were, 'contracted' with the market for it to be feasible; in other words, it must ensure against any negative repercussions on the credibility of the country. Independence of political power from national capital might have been achieved through fiscal discipline and economic stability, but the sovereign power required to achieve the constitutional goals is still, and is likely to continue to be, constrained by international market sentiment and approval.

An example of how prices constitute a form of judgement on government policy was the reaction of markets to Finance Minister Trevor Manuel's resignation following the 'recall' of President Thabo Mbeki by the ruling ANC party. The news provoked a strong market reaction, with 4% losses on the stock exchange, 5% devaluation of the currency and a loss of 20 basis points on government bonds. The resignation was immediately explained as a formal requirement and that Trevor Manuel was still available to serve in the new government. But the message coming from the market was clear: whatever the political instability coming from inside the ANC, the economic arrangements guaranteed by the economic policy framework established by Mr Manuel and the then reserve bank governor, Mr Mboweni, should be protected carefully, as a condition for economic stability.

Two important and related conclusions follow from this. The first is that the ANC government's intention to achieve greater independence from national and international investors had the unintended consequence of making it more,

⁴⁰ This perception of international investors that there is a significant political risk in South Africa was famously attacked by former President Mbeki in response to an assertion of this kind made by Mr. Trahar, CEO of Anglo American. "Throughout the colonial and apartheid years, Anglo American did not seek a London listing, and did nothing that would generate speculation about the future of its Johannesburg Head Office. Is it now saying that democratic South Africa presents the business world and our country with higher political risk than did apartheid South Africa? What information does it have, or projections into the future, that say that there is a persisting political risk in our country, on which Anglo American must base its decisions about its future? Would the company be willing to share this information, or projections, at least with the government, so that steps could be taken to remove the risk? Is this perhaps the reason that South African companies have unusually high cash or liquid reserves, that they think that such is the level of political risk in our country, that they would be very foolish to tie up all their resources in fixed investments in our country? If this is the case, why has business not raised this matter, despite the institutionalised system of regular interaction that exists between government and business?" T. Mbeki, 'Questions that Demand an Answer', *ANC Today*, 4.36 (2004).

⁴¹ L. Mosley, 'Constraints, Opportunities and Information: Financial Market-Government Relations around the World', in *Globalization and Egalitarian Redistribution*, ed. P. Bardhan, S. Bowles and E. Wallerstein (Princeton, NJ: Princeton University Press, 2006), pp. 87-119.

not less, dependent on the constraints of creditors, even if the identity of those creditors has, to a certain degree, changed, that is, become more international in character. Its austere and 'prudent' response to debt made its debt more attractive and thus more subject to investor scrutiny and sentiment. If anything, it now has less, not more, sovereign independence with regard to its policy choices. Second, these developments have only further undermined an important condition for creditworthiness: that the interests of creditors are represented in the formal structures of representative government. Despite BEE, this is still very much not the case in South Africa. We submit that, more than any other factor, it is this that explains the continued lack of credibility of South Africa, that is, it is this inability to complete the representative circle that explains why South Africa is still deemed a relatively risky place in which to invest.

Conclusion

In this chapter I have provided an account for the ANC's decision to choose an elite compromise with the outgoing NP government and the old, mainly 'white' economic elite and, in line with this decision, to adopt an austere fiscal policy following liberation from apartheid. I have shown why this decision not only was misguided but also has backfired to monumental and dangerous proportions: besides constraining any subsequent policy decisions that might have been in the interests of economic transformation and the empowerment of the citizenry as a whole, despite making all the right moves in terms of the economic orthodoxy of the age, the South African state still lacks the credibility needed for relatively cheap debt servicing and economic transformation. This is because the elite compromise depended on forms of economic and political representation that not only reinforced rather than recalibrated existing power relations and forms of domination, but also disabled South Africa from gaining the levels of creditworthiness that ought to have been the result of constituting representative democracy. Thus the accommodation by the new political elite of the old economic elite was, despite the discourses and promises of the age, the recipe for stagnation and continued domination rather than growth and empowerment of all for two reasons. First, the economic elite do not have strict veto power over political decision-making, and thus international investors still deem South Africa a risky place in which to invest. Second, it is not in the short-term interests of the economic elite to push for a change in these cosy relations of power with the new political elite.

Of course, the folly of these decisions and, ultimately, the faith in elite compromise are partly explained by the lack of experience in government and training in economics at the helm of the ANC in the early 1990s, which required an over-reliance on IMF and World Bank experts.⁴² The consequence of this over-reliance on the experts, moreover, was not helped by the fact that not only were the orthodox economic arguments swallowed hook, line and sinker, but also the orthodox arguments regarding the causal relationship amongst representative democracy, public debt and state credibility are fundamentally flawed, at least in the case of South Africa, but potentially in all contexts. State credibility is best defined as the perceived likelihood that a current or future government will honour debt contracts.⁴³ Increased state credibility is associated with a significant drop in the premia states have to pay to service their debts; in other words, as credibility increases, so the cost to a state of its debt decreases.

The received opinion on public debt and state credibility is that representative democracies are much better suited to public borrowing than autocracies or other forms of political regime because they display greater commitment to debt repayment, or, in other words, are less likely to default on debt.⁴⁴ This is the case, various economists and political scientists have argued, for a number of possible reasons. (1) In democracies, as long as the state borrows from its citizens, 'there is no divergence of interest between borrower and lenders, for the two are one and the same'.⁴⁵ (2) Limited or 'Mixed' government creates the constitutional checks and balances necessary to ensure commitment.⁴⁶ (3) Representative democracies normally delegate management of government debt to an independent agency, like a central bank, which increases commitment by making it more costly for a government to default on its debts: since government revenue is channelled through the bank, any decision to default would quickly lead to a halt in payments from bank to government.⁴⁷ (4) Credible commitment in democracies is the result of the concomitant growth and significance of parties and party government, which generate compromises and concessions that lead to moderate policies and thus a reduction in the possibility for default.⁴⁸

⁴² Terreblanche, *Lost*, provides much evidence for this over reliance.

⁴³ Stasavage, *Public Debt*, p. 23.

⁴⁴ Macdonald, *Free Nation Deep in Debt*, p. 6.

⁴⁵ Macdonald, *Free Nation Deep in Debt*, p. 7.

⁴⁶ C. de Montesquieu, *The Spirit of the Laws* (Cambridge: Cambridge University Press, 1989 [1748]); A. Hamilton, J. Madison and J. Jay, *The Federalist*, ed. T. Ball (Cambridge: Cambridge University Press, 2003 [1787]); North and Weingast, 'Constitutions and Commitment'.

⁴⁷ B. Weingast, 'The Political Foundations of Limited Government: Parliament and Sovereign Debt in 17th and 18th Century England', in *Frontiers of the New Institutional Economics*, ed. J. Drobak and J. Nye (London: Harcourt Brace, 1997), pp. 213–246.

⁴⁸ E. E. Schattschneider, *Party Government* (New York: Farrar and Rinehart, 1942).

(5) Representative democracies support the free movement of capital and are therefore also more wary of taxing it heavily to avoid capital flight. This may be equally true with regard to taxes on capital and for default, which may be seen as one-off tax on holders of government bonds.⁴⁹ In sum, the orthodox argument holds that representative democracy is a necessary (and in some instances even a sufficient) condition for credibility, that is, that its institution reduces uncertainty and thus increases the value of a state's bonds, which means it becomes less expensive for a government to finance its activities.

Our evidence as regards the recent history of South Africa casts doubt on all of these arguments. The first argument given by Macdonald seems to rest on a naïve notion of democracy because even if all creditors were citizens, in representative democracies it is highly unlikely that there will be *no* divergence of interest between borrowers and lenders, or between rulers and ruled. In any case, this assumption clearly does not fit in the case of South Africa. Second, the case of South Africa makes it clear that constituting representative democracy, including all the necessary checks and balances, is not sufficient to ensure credibility. South Africa remains a risky place in which to invest, despite its consolidation of representative democracy and adoption of prudent fiscal management, even beyond that expected by the IMF. Nor do the third and fifth reasons hold much water under South African conditions, for while, similar to other representative democracies, the South African government does delegate some of its fiscal management to its central bank it still maintains exchange control and therefore bucks the alleged trend that representative democracies support capital mobility. Finally, the fourth reason depends upon a strict condition that does not obtain in all representative democracies and is clearly not the case in South Africa – that there must be conflict over multiple issues and the dividing lines in each conflict do not coincide. As I have shown in this book, the dividing lines in South African society are still very much determined by the coincidence of racial divisions and those generated by poverty, unemployment and inequality.

Rather, the more likely reason that representative democracies normally bring about an increase in a state's credibility is that they have tended to provide the representatives of the creditor class with a veto point in parliament. This is not the case yet in South Africa and so it lacks credibility, worsened by the associated macroeconomic straitjacket that disallows for meaningful

⁴⁹ Stasavage, *Public Debt*, p. 23; C. Lindblom, 'The Market as Prison', *Journal of Politics*, 44.2 (1982), pp. 324–326.

intervention to counter the effects of the cleavages generated by centuries of racial domination and political and economic exclusion. International creditor interests are represented (through identification) by an economic elite that does not enjoy formal representation in parliament and therefore both international and national creditors do not control a veto point. Thus the case of South Africa supports this broader theoretical claim regarding representative democracies: that what really matters is not so much the instantiation of representative democracy *per se*, but that representative democracy normally provides a relevant veto point for the creditor class. Whether it supports the strong version of the claim – that the necessary condition for a state's credibility is the formal, political representation of its national creditors, irrespective of the exact form of its regime – is up for debate. This more demanding theoretical claim could only properly be substantiated by means of a comparison of various examples of public debt management, representation and state credibility, which I must pass on here.⁵⁰

What I can say, though, is that this argument regarding representative democracy, public debt and state credibility in South Africa highlights the importance of understanding the dynamics of public debt for an understanding of representation and *vice versa*. All governments need creditors, even under conditions of austerity, and so creditors are in a privileged position as regards the formation of fiscal policy. They retain the power to discipline government by dint of the fact that the state cannot function without their credit. If their interests are accorded formal, political representation, they control a veto point; if not, their country will be deemed less creditworthy than those that do, which in itself provides a strong incentive for the formal political representation of their interests. This suggests that at the very least the orthodox argument must be augmented and that the weakest form of my argument here holds, at least in the case of South Africa: that both representative democracy and the formal, political representation of a state's national creditors together constitute necessary conditions for credibility. Within modern representative democracies, as in South Africa, the clamour is no longer 'no taxation without representation';

⁵⁰ But for comparative support, especially from seventeenth and eighteenth century Holland and the UK, see North and Weingast, 'Constitutions and Commitment'; Weingast, 'The Political Foundations of Limited Government', in the context of Stasavage, *Public Debt*, pp. 5–6, not forgetting that the governments of both Holland and the United Kingdom for most of the seventeenth and eighteenth century were far from what, much later, became known as 'representative democracies', in fact the term had yet to be coined – see B. Manin, *The Principles of Representative Government* (Cambridge: Cambridge University Press, 1997); and J. Dunn, *Setting the People Free: The Story of Democracy* (London: Atlantic Books, 2005). In other words, whether or not they could borrow cheaply had nothing to do with their status or otherwise as 'representative democracies'.

rather the reality is 'no credit without representation'. Not taking this and its consequences seriously enough and not working out how best to square this reality with the dire need to overcome South Africa's long legacy of racial oppression and devastatingly high levels of inequality, unemployment and poverty have been the most serious indictment of the ANC in government.