

UMRABULO

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The contents of this edition of Umrabulo do not necessarily reflect the policy of the ANC.

INTRODUCTION:

Umrabulo was a word used to inspire political discussion and debate on Robben Island. This concept was revived five years ago when the ANC published the first edition of Umrabulo. The journal's mission was to encourage debate and rigorous discussions at all levels of the movement. During the past five years, the journal has served the purpose of disseminating key policy and discussion papers of the ANC (e.g. transformation of the state or deployment strategy).

Past editions of Umrabulo assisted countrywide discussions in preparations for policy-making forums such as National Conference and, more recently, the National General Council. It has also helped the movement and its cadres to reflect on the challenges we face in our endeavors to transform South Africa, in a changing global environment.

After a review of the first five years, a decision was taken to broaden the content of Umrabulo to enable it to provide a forum for rigorous and robust debate amongst all the forces committed to

transformation, within and outside the ANC. This, we hope, will contribute towards consolidating and broadening the forces committed to change.

Each future edition will therefore focus on a particular theme for debate and will include contributions from across the spectrum of those committed to transformation. We will also cover a greater variety of other topics, with contributions from readers. We hope to publish Umrabulo at least once every three months, with a user-friendly format.

We have over the years received many useful comments from readers (and political commissars!) on the content and form of the journal, as well as contributions on various topics. We hope to continue this tradition with the new-look journal. Contributions from readers to articles in this and previous editions of Umrabulo are welcomed, whether it is to take forward the debates or to disagree and present different perspectives. We also welcome suggestions for themes for future debates.

Umrabulo Editorial Collective

Black Velvet - Editorial on Racism

By Dr. Z. Pallo Jordan

After eight years of marriage I became the father of a daughter. Though my work for the movement meant that I spent little time with her, there were a number of highly memorable occasions during her childhood that the two of us shared together. One such was watching a video starring the young Elizabeth Taylor, in a film titled "Black Velvet".

The plot was the story of a young girl who received a pitch-black thoroughbred as a gift. She named her horse Black Velvet. She enthusiastically participates in the training of her racehorse, learns to ride him herself and, when everyone feels he is ready, the horse is entered into the major race meeting.

Alas, on the fateful day, owing to some unexpected mishap, the jockey does not turn up, and it looks as if Black Velvet will miss his big day. Rather than give up, the young lady decides that she shall dress as a jockey and ride Velvet herself. Not only does she enter the race, but Black Velvet, ridden by his loving owner, who does not once use the riding crop, finishes a few lengths ahead of the field in a convincing win.

But, there is a rule: all jockeys must be male. So, though having won very handsomely, Black Velvet and his jockey are disqualified and the second best takes the trophy.

"But that is so unfair!" my daughter exclaimed bitterly. Her mother, who had joined us by then, tried to comfort her and explained that it was indeed unfair, but it was the outcome of a practice known as sexism.

It took sometime for my little girl to grasp that many things in our lives are extremely unfair. While some of these are incidental, there are others that are far worse, because they are institutional.

A win by a new horse, ridden by a new jockey would normally be cause for celebration and congratulation. But the performance of Black Velvet and his untutored jockey were irrelevant. What mattered was that the jockey was of the wrong gender. A good rider on as good horse, even having won, cannot collect her reward solely because of an accident of birth. She was born a girl!

During the first decade of the twentieth century, a young African, Solomon T. Plaatje, in search of remunerative employment, sat for the Civil Service examination in the Cape Colony. He wrote the exam in English. Plaatje scored the highest marks amongst all the candidates. But he could not find suitable employment in the Civil Service. He decided to sit for the examination a second time. This time he wrote the exam in Afrikaans. Again he came top of the class with the highest score.

Despite his excellent test scores, the only civil service post he could aspire to was that of Postmaster. White candidates who had fared worse than Plaatje assumed posts appropriate to their performance, going on to become Directors General and Permanent Secretaries, and even Cabinet Secretaries. As in the case of Black Velvet, an accident of birth, Plaatje's race, meant that he could not collect the rewards due to him. Racism, like sexism, is a system of exclusion, not merely of the individual, but of entire groups of people because of their race. As with sexism there is nothing the individual can do to escape it, because the exclusion has nothing to do with the individual other than as a member of the excluded group.



To grasp that central fact about the nature of systemic inequality and institutionalised injustice is to understand what makes them so pernicious*. Racism, though part of the leftover baggage of the era of colonialism and apartheid, remains one of the worst stains on our society even today. Many scholars have very eloquently argued that "race" has no validity in human biology. Proponents of this view contend that there is but one race, the human race, which though it has diverse physical features derives from one common source, homo sapiens.

Yet recently, an African-American academic remarked to colleague:

"Your contention that race is purely a social construct is not of much help to me when I try to hail a cab to go uptown in the streets of New York."

Equally forcefully during the 1940's, Dr W.E.B. Du Bois when asked to define the term Negro replied, "someone who has to ride Jim Crow in the state of Georgia."

Both these are very illuminating because they demonstrate that though it has no scientific validity, "race" is nonetheless a social and political reality, in terms of which power, status, access to wealth and to social position were assigned in virtually all colonial societies after the 17th century. Consequently it ceased to be a neutral descriptive term, but one that was highly charged as an indicator of advantage or disadvantage. Apartheid was probably one of the most extreme expressions of racism. It institutionalised the inequalities of colonial society by actually translating them into law.

Institutionalised racism in South Africa has its origins in the conquest and dispossession of the indigenous peoples, the enslavement of peoples from the India, Indonesia, the Indian Ocean islands and west Africa and the creation of a colonial society dominated by the peoples from Europe.

The ideology of racism served not merely to justify these injustices, but also lent them legitimacy and moral sanction, thus ensuring their continuity.

By the 18th century in White-ruled South Africa it was understood and codified in law that White people could not be enslaved. But it was acceptable to enslave people from Africa, from Asia and the Americas. While the rights of Whites to the land they occupied were to be respected and received the protection of the law, land in the hands of the Khoikhoi, the San, the African kingdoms was respected only as long as these indigenous people possessed the military capacity to defend it. Once their military power was diminished, it was acceptable not only to seize their land by force, but also to press their children into servitude.

By the time minerals were discovered in South Africa, in the two Afrikaner Republics, it was written into law that there could be no equality between White and Black. In the Cape Colony and in Natal, though the laws were less explicit the practice was identical.

Racial oppression became institutionalised for all of South Africa in the aftermath of the Anglo-Boer War. The Commission on Native Laws of 1905, unambiguously defined all Black South Africans, but especially the African majority, as a conquered and colonized people, over whom the Whites collectively exercised dominion. That system was finally put to an end only in 1994.

Among the worst outcomes of legally enforced inequality is that even today South Africa can be described as a deeply divided society, with race as the most evident line of cleavage.

From the testimony gathered by the South African Human Rights Commission in preparation for the National Conference on Racism, we can say that **racism manifests itself and can be experienced at five different levels.**

There is **firstly the personal level**, which refers to the individual racial prejudices and notions held by an individual. These find expression through negative racial stereotypes about the targeted group.

A municipal councillor in the Western Cape recently offered up a disgusting catalogue of the negative stereotypes about Black people that she subscribed to. Mrs. Yvonne Woods told an interlocutor on the phone what she thought.

"Coloureds breed like rabbits. They have filthy mouths. They will not behave properly in a hundred years."

"Its difficult to do anything about them because they are the majority. If the want to be part of the 'in crowd' (i.e. Whites) they must behave."

To its credit, the Democratic Party, whom Mrs. Woods represented on the South Peninsula municipality, expelled her once these views became public knowledge.

If such bigotry were merely the private idiosyncrasies of individuals, disgusting as it is, one might dismiss it as more or less benign. Unfortunately, it is often raised to a **second and higher level, the interpersonal**.

The interpersonal level of racism refers to the behaviour of the racially prejudiced individual towards members of the targeted racial group/s. It results in a number of offensive forms of racist behaviour, which invariably include acts of exclusions such as discrimination, segregation, degrading treatment and even personal aggression.

In recent months South Africa has witnessed some extreme examples of such interpersonal racism, including the murder of an African farm worker by being dragged behind a bakkie in the Free State.

The **third level** of racism, **institutionalised racism**, refers to the codification in law, in social practice, in belief systems and accepted traditions of racism as an index of empowerment and disempowerment.

Apartheid was one of the most highly developed forms of institutionalized racism. But the system of "segregation" or "White supremacy with justice" associated with Smuts' United Party was one as well. In virtually all colonies and semi-colonial countries one form or other of institutionalized racism was practiced by the colonial power against the colonised people. The depths to which this descended were the signs erected in the European concession areas that the western powers carved out in the port cities of China that read: "*Chinese and Dogs Not Allowed*".

Until the early 1960's in many of the states of the American South racially segregated facilities were the norm. That system was known as Jim Crow.

There is yet a **fourth level** of racism that was uncovered, **cultural**. This refers to the social power a dominant group enjoys in relation to targeted group/s, which empowers the former to define, describe, prescribe and proscribe for the latter.

This cultural level is usually reinforced through language and symbols that affirm the dominant group while degrading or dehumanising the targeted group.

After the National Conference on Racism I received a shocking example of this from one James Archer of Cape Town. Mr. Archer wrote with apparent reference to South Africa:

"This was a land without a wheel, a lamp, a match to light a fire, without a book, a pencil, or a pen, without a blanket. None could make buttons, or a buttonhole to fasten his skins about him in the wind. Superstition, pestilence and famine stalked the land and ruled men's lives. War and raiding were unending. Life was very cheap."

The suggestion here, is of course, that the arrival of Europeans ended all that and brought light to the benighted. In addition to the historical inaccuracies and outright racist lies, Archer's note is filled with a host of cultural assumptions about superiority of things European.



Some have also made reference to a **global racism**, which is the outcome of the rape of the former colonies by the powers of the West. One outcome is that today 90% of the world's wealth is in the hands of 4% of the world's population, reflecting a highly skewed distribution of the world's resources in favour of the powerful industrial nations of the north.

Non-racism has been one of the defining principles embraced by the African National Congress since its founding in 1912. It expressed a shared commitment to act together with other South Africans to create a society in which we acknowledged and affirmed the diversity of our people and valued it as something enriching.

It was a vision in opposition to the pervasive racism and brutalisation characteristic of colonial domination and apartheid.

It is a vision we still have to realise, but it must also embody a commitment to employ the power of the state, of civil society and public institutions to put an end to the use of race as a determinant of access to power, status, social power and wealth.

As in the Liz Taylor film, all systems of racism assign advantage to groups and their individual members purely by virtue of their race. By the same token, they also exclude and degrade targeted groups and their individual members solely because of their race. The social power that accrues to the advantaged group permits them also to define the targeted group as "*somehow less than....*"; as "*not quite human*", as "*lesser breeds of humans*", as "*inferior*", as "*having less claim on the rights we take for granted*", etc.

Racism thus sets up a moral universe from which certain human beings are excluded, consequently they can legitimately be denied the most elementary rights; can be treated as something equivalent to livestock, can be bought and sold; and in the worst cases, can be murdered en masse, as happened with the Jews of Europe under the Nazi regime in all of the Occupied countries.

But for those within the moral universe erected by racism there can be immense rewards. Like the rider and horse that came second in the Liz Taylor movie, these rewards do not derive from merit. They are completely unearned and accrue to the members of the dominant group purely by virtue of their membership of that group.

These unearned rewards are then legitimated in terms of the ideology of racism, with appeals to pseudo-science, sometimes to religion, sometimes to the "accepted practice", to culture, etc.

But in the last instance systems of racism invariably fall back on brute force to compel the targeted group to submit to their subordinate status. This force may be that of the state - as in colonial situations and under apartheid. It maybe informal - as in the case of racist storm-troopers of the Ku Klux Klan, the AWB or Hitler's Brownshirts. Or, it maybe in the form of mobs, as happened when an organisation called MOMS, besieged African-American school kids who had been bussed to a White suburb in the city of Boston.

At the core of the system of apartheid was the conquest and domination of the African majority who were the most exploited and oppressed. The Poverty Report released by the South African Statistical Services on September 2000 reveals the devastating consequences that still characterise South Africa. Poverty, from their account, is a condition that afflicts Black people. The statistics indicate that owing to decades of systematic institutionalised injustice, vast numbers of Black South Africans are trapped in poverty. Eight to nine million Africans are destitute.

This deeply divided society could be characterised as comprising of a relatively wealthy, urban White population, at the one extreme; and an extremely impoverished Black, rural population at the other. Black rural women are the most severely affected.

Racial oppression and apartheid found expression in the palpable** form of a number of economic, social and developmental indicators - such as poverty and underdevelopment, the low levels of literacy and numeracy among the oppressed communities, their low access to clean water, the non-



availability of electricity, their low food consumption, their invariably low incomes, the poor state of their health, the low levels of skills, the generally unsafe environment in which Black communities were forced to live, etc. Uprooting of racial oppression requires, amongst other things, the correction of precisely these conditions. In the view of our movement, the content of freedom and democracy would be the radical transformation of South African society so as to create an expanding floor of economic and social rights for the majority.

The immediate changes required to bring about such transformation were set out in our Programme, the Freedom Charter. Though it is not a programme for socialism, the Freedom Charter envisaged the seizure of economic assets in the land, the mines and monopoly industry as essential to the transformation of South Africa.

This was, to remove the commanding heights of the economy from the hands of the White monopoly capitalists who had erected and who benefited from the system of apartheid.

Apartheid was, however, also a racial hierarchy, graded on the basis of skin colour, resulting in a high degree of differentiation among the Black communities in terms of job opportunities, access to certain types of training, the exercise of property rights, etc.

Consequently there are sometimes tensions generated between and among Black communities as greater equality is institutionalised and some of the differential rewards based on racism are lost by Coloured and Indian communities.

The struggle to uproot racism from our society entails completing one of the most important dimensions of our national liberation struggle. As we were required to build and nurture a host of tactical and strategic alliances to attain political democracy, the ANC now has to lead the way in forging new alliances to rid South Africa of the traces of our apartheid past.

During the apartheid era bigots^{***}, racists and fascists of every stripe and variety regarded apartheid South Africa as the vindication of their mad hopes and misanthropic dreams. We could turn democratic South Africa into a beacon of hope for a non-racial world. Only the ANC will prove equal to the challenge of leading our country along this bright, new path into the future.

***The Struggle Continues!
Victory is Certain!***

* **pernicious**: destructive or harmful

** **palpable**: blatant, obvious, overt

*** **bigots**: extremists, diehards

Review of the NGC

The largest political school

The National General Council of the ANC (July 2000 in Port Elizabeth) was heralded to be the 'largest political school' of the movement. It brought together for the first time since National Conference in 1997, cadres from all walks of life, who are working in different sectors, under the theme: **ANC Peoples revolutionary movement for transformation. Forward to the African century.**

The NGC brought together close to two thousand cadres from branches, leadership collectives (REC's, PEC's, the NEC), the SACP and COSATU, MDM formations, progressive NGO's, the Leagues, ANC staff, public representatives (MP's, MPL's, councillors), veterans and cadres working in the public and private sector.

During the months before the NGC, workshops were held across the length and breadth of the country on the Discussion papers, involving thousands of our members and cadres.

Re-affirming the ANC cadre

The discussion papers towards the NGC raised some important subjective factors with regards our cadreship, in particular, the pace at which they are developing new skills and capacity in a various strategic areas. Yet, they are thinly disperse, rarely interact as cadres of change and with a tendency towards a narrow technocratic approach to strategic questions. ¹

One of the key objectives of the NGC was therefore to bring together these cadres and provide a forum to debate the character of the ANC as a revolutionary movement for change and the responsibilities of cadres of this movement, wherever they find themselves.

The quality of deliberations and the discipline of delegates at the NGC points to the fact that we actually do have quite a strong group of cadres in the movement. President Mbeki in his Political overview to the NEC on 29 September 2000 confirmed this when he remarked:

'We have lots of cadres who are clear about the policies of the movement, with capacity to engage with the challenges of the transformation process and with a high degree of willingness to contribute to this process'.

Amongst the strengths of all the commissions, were the frankness of the discussions on the one hand and the willingness to listen and engage on difficult issues. Delegates generally found it very useful to listen and engage with the explanations of cadres deployed to government on the difficulties they face in balancing the mandate of progressively improving the people's lives - using the organs of the state - whilst at the same time having to transform those very institutions.

The NGC brought together different generations in the movement, and the presence of a strong contingent of veterans only served to enrich the discussions; reminding us of the importance of reproducing the time-tested culture and traditions of the movement.

The participation of our young cadres - especially from the ranks of the Youth League and the student movement - in the deliberations of the NGC and in the preparatory workshops, warrants a special mention. This shows that the ANC, despite the problems we have experienced over the last while with youth apathy, remains the home of many bright and talented young men and women who are committed to bringing about change.

The ANC lives. Its policy lives.

The Closing session of the NGC summarized its achievements when delegates unanimously adopted a Declaration, which in its introductory paragraph states:



'We meet in a period in which South Africans are making great strides in improving their quality of life and working with the rest of humanity to build a better Africa and a better world. As we enter the new millennium, we are convinced that we have it within our power to seize the opportunities and address the challenges posed by the new global situation.'

President Mbeki in his Closing address to the NGC echoed these sentiments when he said:

'As we listened to the discussions in the commissions, to reports from other comrades, it was clear that gathered in this room this week, are South Africans of all races, genders, ages, colours about whom our ordinary people are correct to be proud. We have gathered here during this week outstanding representatives of our people. As you heard comrades' comment on very many issues, speaking with frankness, all of us came to the conclusion that indeed, the ANC lives.

The policy of the ANC also lives. We have dealt during the cause of the NGC with many different issues and questions, fundamental to transformation, as was indicated in the consolidated reports of Commissions. We confirmed the basic policy positions of the movement. We confirmed them not because we approached our discussions in a routine fashion, but because we are convinced that they are correct. It is a tribute to the movement that we can produce policies that are tested in practice and time, and still emerge as the only way forward for a new South Africa.'

The overall impact of the NGC in the evolution of the movement and the implementation of its vision of a united, non-racial, non-sexist and democratic South Africa will continue to be a matter for reflection and debate. Above all, it will be in the implementation of the resolutions and spirit of the NGC, that its real impact as a political school will be felt in years and decades to come.

Delegates give their impressions of the NGC

Umrabulo interviewed a number of delegates who attended the NGC about their impressions:

Cde Lawrence Phokanoka: Cde Phokes, a veteran from the Northern Province was born in 1938 in the Sekhukhuleni district. As a student activist, he joined the ANC at Fort University during the late 50's. He went into exile in 1963, joined Umkhonto weSizwe (MK) and received military training in Tanzania and in the Soviet Union. He is one of the veterans of the 1966 Wankie campaign of MK and ZIPRA liberation armies. He was arrested and taken back to South Africa; where he stood trial and was sentenced for terrorism in 1969, alongside Dorothy Nyembe and Daluxolo Luthuli. After the unbanning of the ANC and SACP, he formed part of the Northern Transvaal ANC REC and also served as the SACP Regional Chairperson for three terms. Cde Phokes is well known in political education circles. These are his impressions of the NGC:

"The interpretations of the NGC as a national political school made me expect topics that will strengthen delegates and empower them politically. This approach should help us to develop cadres that can face and deal with any problems as and when they arise."

"There is a proverb I learned at school", he said. 'If you don't get the problem you like, you must like the one you get!' The NGC did well to prepare people to face real problems, because life is not utopia, it is full of problems and contradictions.

"Our cadres need skills to solve problems, that arise in our society, in communities and in our structures. He stressed, 'learning how to handle internal contradictions is critical to the survival of the movement. There shall always be conflicting ideas, and they are not a calamity. They should be handled. Ideas will always arise which fertilise each other despite our likes and dislikes, because - *Batho gase meno gaba lekane.*"

Nikiwe Num is a Youth Leaguer from the Northwest, who was active in COSAS during her high school days. She served on the PEC of the Youth League in the province and is a member of the NEC of the Youth League. She also serves on the ANC cadre development task team in the province. She has also attended the Bloemfontein and Mafikeng National Conferences, as a delegate from the Youth League.



"I was particularly impressed, Nikiwe said, by the Secretary General's report. The SG reported clearly, without fear and favour, frankly exposing the weaknesses of our structures. The time given for commissions meant that an atmosphere was created for us to very intensively review progress since Mafikeng in 1997 and to have a programmatic approach to cadre development and building vibrant branches to meet the challenges of the 21st century."

Victor Oliphant, was one of the branch delegates to the NGC. He is the chairperson of the Delpportshoop branch, which is about 40km outside of Kimberley in the N. Cape. This was his first ANC national event that he attended, and was therefore very excited and honoured to be nominated as a delegate.

According to cde Victor, the NGC met all his expectations and more. He said: "Because we are also grappling with the issues of opportunism and careerism in our branch, it was very interesting to listen how the President dealt with the question head-on. The Organisational report further assisted me in understanding that this movement is bigger than individuals. No one can just mortgage the organization and get away with it. As the President said - '*Asinamona; asinanzondo; siyayidumisa i-ANC.*'"

Feature debate - Allocative Capital

One of our NGC Discussion papers made the point that

'...changing South African society in a manner that decisively improves people's quality of life requires boldness in thinking that shakes up convenient comfort zones:

For instance (it continued), in dealing with matters of the allocation of capital for investments, to look at the balance between bank-based and Stock Exchange systems of raising capital; incentivised and enforced savings; assistance to SMME's; fostering of the co-operative sector and so on.

These questions are critical ... because opportunities lost at the very early stages of change can impact on the success of the whole project." [ANC Agent for Change, Umrabulo No. 8:](#)

President Mbeki in his Opening address to the NGC challenged all members and cadres of the movement to ensure that they deepen their understanding of economic issues,

'given the responsibility we have to use the political power we have gained to ensure that we create and expand the material base without which we cannot achieve the goal of a better life for all'

We therefore feature in this edition of Umrabulo three papers that we hope will take forward the debate on an important element of economic policy -the issue of allocative capital and the role of the financial sector. The financial sector is central to any capitalist economy. Savings are deposited and capital accumulated in various forms. This forms a surplus: the difference between the wealth that is created and the wealth that is consumed. This surplus is then invested for different uses. The financial sector is the collection of institutions (financial intermediaries) that carry out this allocative function. They include banks, insurance companies, retirement funds and the stock exchange. They make decisions about who to lend money to, and thus allocate capital to its different uses. Government also controls some of this surplus, but is not part of the financial sector as such.

In order for the economy to grow and generate jobs, it is important that the surplus is allocated to the best use, from an economic and social point of view. Job creation and economic growth can only come about if there is invested in productive activities, which creates new wealth (and jobs). From a social point of view, capital must also be invested in training, roads, electricity and other infrastructure. On the other hand, the developmental impact of investment in shopping malls is negligible. So the allocation of capital between sectors of the economy is of key significance. Another important area is the allocation of capital between sections of the population. The fact that racism continues to exist in financial institutions is a reality. In most countries, financial markets (if unregulated) fail to provide capital to small businesses and the poor. The combination of these factors means that the vast majority of South Africans do not have access to the surplus the economy produces. Without access to surplus (through savings or credit) it is impossible to acquire assets, which can be used to generate an income. This contributes to continuing poverty and limits the participation of black people in the economy.

We asked three contributors - Jabu Moleketi, a member of the NEC, MEC for Finance in Gauteng and the Economic Transformation Committee; Duma Gqubule, financial journalist and researcher for the Black Empowerment Commission and Neva Makgetla from Naledi (COSATU) to write on this theme. The papers that follow discuss theoretical approaches, the structure of the South African financial sector and the options that could be considered in the present context.

Duma Gqubule considers the East Asian experience in some detail. He applies the lessons of this experience to South Africa and considers ways in which the decisions of allocative capital can be influenced by policy in order to achieve developmental goals. These include recent recommendations by the Black Economic Empowerment Commission.

The paper by **Jabu Moleketi** considers different approaches to analyzing the financial sector and different types of financial systems. His examination of the bank based and market based systems have important implications for the overall development of the economy, and the ability of government to influence this development.

Neva Makgetla looks at the role of the South African financial sector has played in our economic development since the emergence of the democratic state, and how this role is related to the institutional structure of the sector. The paper advocates the need for a clear government policy on the financial sector that is part of a broader development plan.

MAKING FINANCE WORK FOR DEVELOPMENT: EAST ASIAN LESSONS AND SOUTH AFRICAN OPTIONS

Duma Gqubule

In economic literature, a country's financial sector is defined as those institutions that channel funds from households and firms with surplus funds, to households and firms that need to borrow. The role of these institutions is to: mobilise savings; allocate them to the most profitable and efficient investments; and monitor their performance.

Most economists believe that a competitive and efficient financial system is a necessary condition for high levels of economic growth. In an inefficient financial system, savings will find their way to uncompetitive projects, lowering the country's growth rate. Indeed, the financial sector has been called the blood-stream of the economy.

However, this paper will argue that government intervention is required to steer financial flows towards areas of national priority. The first section will briefly show how East Asian governments have intervened in their financial systems to make them responsive to national objectives. The next section will look at the South African situation and the recent calls by the Black Economic Empowerment Commission (BEECom) for an Investment for Growth Accord to help steer financial flows towards areas of national priority.

THE SA FINANCIAL SECTOR

In SA, there is a wide range of financial institutions, including: banks and other deposit-taking institutions; insurance companies and the Johannesburg Stock Exchange.

- The banking sector, which mobilises short-term savings, had assets of more than R650 billion at the end of 1998; the four largest banks have assets of more than R100 billion each. (Banking Council)
- The long-term insurance industry had total assets of R604bn at the end of 1998. (Financial Services Board)
- The retirement fund industry (comprising nearly 16 000 funds with 10,9 million members) had total assets of R605 billion at the end of 1998. (Financial Services Board)
- The value of unit trust industry portfolios was R112 billion at the end of 1999. (Financial Services Board).
- The total value of shares on the JSE is worth R1500bnm making it one of the world's top 20 markets. The JSE mobilises the funds of investors and allocates them towards companies seeking funds.
- By comparison, the government's annual budget is just over R225bn

However, for a number of reasons, even a sophisticated financial sector cannot meet all the requirements in an economy.

Firstly, profit-making banks do not lend enough money to small business because of high transaction costs and perceived levels of risk. They do not provide services that cater for the needs of the majority of the poor. Therefore, poor people, throughout the world resort to non-bank lenders and end up paying more for credit than the middle and upper classes.

Secondly, stock markets do not necessarily allocate capital to the most deserving projects. On the JSE, financial institutions trade (mostly) in only a limited number shares - the top 20 companies - which account for the bulk of the market's total market value.

Increasingly, the investment decisions of fund managers are based on psychological (rather than economic) criteria, hence the widespread use of models to predict what shares other investors will buy. This results in a "herd mentality" where investors buy what they think other investors will buy.

Many investment decisions are not based on economic fundamentals; everyday on the JSE, huge amounts of capital are thrown at hopeless causes. Fashion is king; in January it is technology shares; in March it is platinum shares. Finally, the worldwide de-regulation of financial markets since the early eighties has resulted in a proliferation of new financial instruments. The consequence is that the link between financial flows and actual investment in production capacity has been further reduced.

Fund managers can now invest in an ever-widening choice of financial assets and instruments that offer short-term returns and liquidity; these instruments allow capital to feed on capital. Many financial assets derive their value from other financial assets, resulting in a speculative frenzy that has little to do with the real economy.

"Speculative investment has replaced productive investment, with a consequent decline in job creation and overall employment levels." (RDP 4.1.4)

Because of the incredible diversity of products that the international herd of investors can feed on, it seems that there is little time for careful analysis of economic fundamentals. In his book: *The Lexus and the Olive Tree*, US writer Thomas Friedman says:

"The herd feeds in 180 countries, so it does not have time to look at you in detail all the time. It makes snap judgements about whether you are living by its rules."

It is therefore clear that:

"De-regulated financial markets do not provide any guarantee that finance will be available even for profitable private sector projects which optimistic businesses wish to undertake. Experience suggests that the market's criteria for evaluating projects are different from those of businesses.

"The markets have a shorter time horizon looking for both quick returns and liquidity while profitable business projects often have to be judged on a 10-year profit projection." (Laurence Harris of the London School of Economics, quoted in McGregor's *Economic Alternatives*, 1990)

THE EAST ASIAN EXPERIENCE

Because of such well-documented "market failures" and the size of the financial sector- the funds at its disposal are far greater than those available to any state - governments throughout the world have intervened in financial markets to achieve economic and developmental objectives. They have been reluctant to rely entirely on private markets to allocate capital. (World Bank: *The East Asian Miracle*, 1993).

The interventions in the financial sector have included: nationalisation; outright lending directives for banks; interest rate controls; and prescribed asset requirements for insurance companies and retirement funds.



In East Asia, interventions targeted the banking sector with measures to direct credit at priority areas. According to the World Bank (The East Asian Miracle, 1993) there are three broad types of directed credit interventions:

First, governments can direct credit to specific firms or industries. Japan, during its post war reconstruction and Korea during the 1970s directed substantial credit to specific sectors and firms, mostly in heavy and chemical industries.

Second, they can direct credit on the basis of broad functional criteria, such as promotion of exports or small and medium-size enterprises. In Korea, allocation was strictly based on export performance, and commercial banks monitored performance since they only collected repayments on realised export sales.

Indonesia, Korea, Malaysia, Thailand and Taiwan, China have required banks to extend a proportion of their loans specifically to small and medium-scaled enterprises. There are also attempts at facilitating credit access of technology-intensive producers.

All East Asian economies provided automatic, generous access to credit (or credit guarantees) to exporters with varying degrees of subsidies. Japan, Korea and Taiwan (China) went a step further: they used exports as a criterion to determine whether priority firms, regardless of the market for the actual priority investment, continued to receive credit. We conclude that credit directed to exporters was a positive factor in generating growth. Policy-based lending (or directed credit) probably contributed to the rapid expansion of Korean industry, particularly manufactured exports. Most of the directed lending to priority industries in Korea translated into investments in equipment.

Third, governments can direct credit to accomplish social objectives such as mass housing or redistribution of assets among ethnic groups. Japan has directed credit to facilitate the adjustment of declining industries. Malaysia and Indonesia have directed credit to promote income redistribution among ethnic groups (In Malaysia, banks were required to lend 20% of their total loan books to the indigenous Bumiputera).

A careful micro-econometric study of Japan's industrial credit programmes (Calomiris and Himmelberg 1993, quoted by the World Bank in The East Asian Miracle, 1993) reached the following conclusions:

- Government lending had a large, positive, and statistically significant impact on both gross and net investment; the three year cumulative effect of a one dollar increase in debt financing from government sources was more than two dollars of additional gross investments in capital assets.
- Government lenders withdrew credit once firms had access to private credit markets and, in turn, extended credit to new borrowers. The characteristics of firms receiving increasing government credit indicate that assistance was targeted towards firms most likely to grow, invest, and generate technological externalities.

In addition to directed credit programmes, the East Asian governments have made other interventions in the financial system. According to the World Bank (The East Asian Miracle, 1993): Some East Asian countries have tried to *compel savings through several measures*, including mandatory pension schemes and restriction on consumption and borrowing for consumption. Three economies in East Asia - Japan, Malaysia and Singapore have well-developed mandatory plans. There is evidence that Singapore's Central Provident Fund boosted aggregate savings by about 4% of GDP during the 1970s and 1980s.

Finally, East Asian governments created a wide range of financial institutions to fill perceived gaps in the types of credit provided by private entities. They addressed the need for long-term credit for industry by creating development banks. Most have also created specialised institutions that provide assistance for agriculture and small firms. Industrial Development Banks have been substantial long-term lenders in Indonesia, Japan, Korea and Taiwan (China).

There are two lessons from the East Asian experience:

- Firstly, careful interventions can improve the allocative efficiency of the financial sector and complement market forces.
- Secondly, the interventions were successful because there was a shared consensus between government and business about the need for regulations to re-shape financial markets to meet national economic priorities.

COMMUNITY RE-INVESTMENT IN THE UNITED STATES

In the United States, the government has used Community Re-Investment (CR) legislation in response to market failures in the financial sector. The legislation was designed to help steer financial flows towards underdeveloped areas.

The Banking Council of SA says:

"From research and discussions, it seems that the legislation is now producing good results, and the banks are increasingly complimentary about the legislation and how it is applied."

The CR Act requires US banks to disclose their lending to underdeveloped areas, but there is no compulsion to actually lend to these areas. The only sanction in the act is that when a bank applies to the regulator to exercise its discretion in the bank's favour (such as permission to merge or open a branch) the bank's performance in terms of the CRA is taken into account. Of the 20,000 odd occasions on which such discretion has been exercised, there is not one example of it being exercised against the bank on the grounds of inadequate performance in terms of the CRA.

A US study found that banks make micro and small enterprise loans around the world: firstly, because of the profitability of the loans; secondly, because of intensity of competition in the large and medium enterprise markets; only thirdly, because of regulations imposed by Governments; and lastly, because of some sense of social responsibility.

THE SA DEBATE: INTERVENTION VS MARKET FORCES

In South Africa, there has been a vigorous debate, especially over the past decade, on the role of the financial sector in helping meet national economic and developmental objectives.

The ANC's Policy Guidelines (1992) said:

"The democratic state will ensure that financial institutions in both the public and private sector participate fully in the proposed new path of growth and development. The democratic state will introduce mechanisms to encourage the private sector financial institutions to channel resources towards productive investments, the development of the basic needs sector, and to end discrimination against black, women, and informal sector (or very small) producers."

The RDP said:

"The democratic government must modify regulations and support innovative financial institutions and instruments which mobilise private domestic savings to help fund the RDP." (RDP 4.7.2)

The law must also require that financial institutions disclose their loans by race and gender; their assets and liabilities by sub-region and sector; their staff by race and gender; the location of their branches and defaults by neighbourhood." (RDP 4.7.3)

"Pension and provident funds should be made more accountable to their members and insurance companies to their contributors. The democratic government must change the law to ensure adequate representation for workers through the trade unions and compulsory contributions by employers, and

move towards industry funds. It must also legislate a transformation of the boards of mutual funds to make them more socially responsible." (RDP 4.7.6)

Explaining these policies, Harris said (in *Wealth or Poverty: Critical Choices for SA*, 1992):

"The main issue driving ANC policy towards the financial markets is a central problem of any development strategy. (This is) how to secure higher levels of productive investment and its direction to the most beneficial projects.

"The plans for the regulation of financial markets are based on the firm belief that SA's credit and capital markets, left to themselves, will not generate the high levels of investment in productive capacity required for transforming the economy. They will not channel funds towards the types of investments in productive capacity, economic and social infrastructure and human resources development that are needed to meet the ANC's objectives for the country."

The prescribed assets debate

During the early 1990s, there was a vigorous debate about the possibility of re-introducing prescribed asset requirements to fund the reconstruction of post-apartheid SA. At the time, finance minister Trevor Manuel was quoted as saying that the insurance industry will be targeted for investigation because *"we cannot have the nation's savings going into offices and shopping malls."*

NACTU President Cunningham Ngcukana said (Finance Week, September 29, 1994):

"These funds are the savings of black workers. Decisions on where to invest should not be the prerogative of fund managers in the major institutions. If we leave the decisions to them, they will build shopping centre after shopping centre in white areas. This means nothing for black workers."

According to a National Labour & Economic Development Institute Paper (Briefing on the use of prescribed asset requirements, July 1998):

"Essentially, a prescribed asset requirement is a regulation stipulating that a certain percentage of a fund's total assets must be invested in certain types of investment, with government stock stipulated for at least a portion of this."

Legislation for prescribed assets was introduced by the Apartheid government in 1956, but really kicked into practice in 1966. At this point it became compulsory for a pension fund to hold at least 10% of its total assets in government bonds and at least 40% in prescribed stock, including government bonds. These figures rose steadily to peak at 22,5% and 55% respectively from 1977 - 1979 before gradually falling with various legislative amendments.

Prescribed assets included National Defence Bonds, investments in various water services, economic development, posts and telecommunications, transport corporations, electrification projects, the Abattoir Corporation, Iskor, the IDC, the National Housing Commission, the SABC, Sasol, homeland development corporations and so on.

At the time of the abolition of prescribed assets in 1989, prescribed stock (including government bonds) stood at 53% with no specific requirement for government bonds.

Since 1994, government interventions in the financial sector focused on restructuring inherited development finance institutions (The Land Bank, The Industrial Development Corporation etc.) and creating new ones (Khula, Ntsika etc.) There are various views on whether these interventions have been successful or not, but this paper will not enter this debate.

The former RDP ministry engaged financial institutions with a view towards reaching agreement on an RDP Investment Accord that would commit the sector to make a contribution towards financing RDP infrastructure projects. The ministry set up an RDP Infrastructure Investment Task Team to co-

ordinate the efforts; the Life Offices Association (LOA) started an Investment Development Unit (IDU) to find ways of funding the RDP on a macro basis. At the time, the life assurance and pensions industry had only channelled about R900m into RDP-related investments through two creative instruments -the Collateralised Housing Investment Paper (Chips) that raised R120m and the Electrification Participation Notes (EPNs) that raised R750m (RDP: SA's rebirth: A Finance Week survey October 27, 1994).

The financial institutions insisted on a voluntary, market-driven framework for RDP infrastructure investments. This principle was accepted in a "Joint Statement of Intent towards an Accord for Investment in RDP Infrastructure" that government, business and labour representatives agreed to on June 27, 1995.

The statement said:

"The Conference agreed on the need for the private sector to participate in investment in RDP programmes. Government and the private sector are committed to exploring partnerships in financing and delivery mechanisms to meet these objectives. Confidence shown by the participation of domestic investors will be essential to secure additional foreign funding."

Recently, the government has intervened in the financial sector by passing the Home Loans and Mortgage Disclosure Bill that outlaws red-lining (refusing to grant loans in certain areas) by banks and compels them to give reasons for declining a loan application. In addition, the Department of Trade & Industry is looking into the possibility of introducing Community Re-Investment legislation along the lines of the US.

Today, it is not clear how much the life and retirement fund industry has invested in RDP-related projects, including infrastructure and black economic empowerment. The Investment Development Unit was closed after the industry decided that the market would allocate resources to RDP-related investments.

RECOMMENDATIONS FROM THE BLACK ECONOMIC EMPOWERMENT COMMISSION

However, following the release of the Black Economic Empowerment Commission's (BEE Com) draft discussion document (at the end of September) calling for an Investment for Growth Accord, the Life Office's Association has sent a circular to members to help arrive at an estimate of the industry's investments in RDP-related areas.

According to one survey (by Alexander Forbes) the socially-responsible funds of the major institutions have investments worth R2 - R3bn. Another study (by Futuregrowth) finds that such investments are worth 1,2% of life and retirement fund assets (R14,4bn). The discrepancy between the two estimates is due to a lack of a uniform definition of what constitutes a socially responsible investment.

The BEECom believes that the time has come for all stakeholders -government, business and labour - to agree on an Economic Growth Plan for the 21st century.

At this stage, South Africa is faced with two choices. It can continue on the current path - and hope that macro-economic stability and continued efforts to deregulate the economy will, somehow, result in improved investor confidence and, therefore, higher levels of foreign and local investment. However, as Harris pointed out in a prophetic article (McGregor's Economic Alternatives, 1990):

"If in a de-regulated financial system, investment in new capacity depends wholly on the psychology of business leaders, their pessimism or optimism, that is too fragile a base for the country's growth:

Relying on business to become optimistic is the equivalent to trying to transform the economy while balancing on an eggshell. What happens if after a democratic government is elected business continues to be pessimistic despite being able to raise the finance for it on de-regulated financial



markets? To minimise that risk, the ANC envisages the state having a leading role in investment and regulating the financial markets in order to obtain the financial resources for it."

An Investment for Growth Accord

The Black Economic Empowerment Commission draft discussion report presents a second choice.

"The imperative - now that the macro-economic environment for the implementation of the next stage of the RDP has been achieved - is to agree on targeted measures to increase the participation of black people in the economy and boost levels of fixed investment and economic growth."

The BEE Commission believes the time has come for decisive action from all stakeholders to play their part in breaking out of the current low economic growth cycle. There is a need for concrete strategies to significantly increase levels of fixed investment in order to raise the country's economic growth rate towards the 6 - 10% level.

These concrete strategies may require measures to steer financial flows towards productive investments. If implemented within the context of an accord, such measures would not result in an investment strike by the owners of capital, domestic or foreign.

The BEE Com report proposes that

"all stakeholders should reach agreement on an Investment for Growth Accord aimed at guiding their participation in an Integrated Strategy to make investments of national priority, and to substantially increase the country's levels of fixed investments and elevate the economy onto a higher-growth path."

The key elements of the strategy would involve each stakeholder making a concrete commitment towards increasing levels of fixed investment in areas of national priority, including infrastructure and BEE.

To achieve this, there is a need to re-open discussions with the financial institutions to find creative ways in which the sector can make a contribution in terms of an Investment for Growth Accord. As a first step, it would be helpful to find out why the sector's investments - since the March 1996 Infrastructure Investment Conference - have not been higher. Was it because of the closure of the RDP ministry and the lack of a government department/agency to play an advocacy role and lead the process?

The BEECom was deliberately vague about the instruments required to lift the sector's contribution to targeted investments to a specified percentage of total assets. It was felt that it was more important to reach agreement on the principle before discussing details.

If an agreement could be reached, it would then be necessary to:

- Arrive at a uniform and clear definition of what constitutes a targeted investment.
- Quantify the capital required over a specified period. If a large number of suitable projects could be identified, this would make it possible to design a menu of investment vehicles that would increase the choice of vehicles available to financial institutions. It could be possible to establish a development sector on the bond market.
- Decide which projects would require government guarantees: Some targeted investments would not require a government guarantee. Others would require a partial guarantee of 30 - 50%.
- Design mechanisms to create the organisational capacity to allocate funds. These could include creative mechanisms to involve the private sector. The alternative - to rely on the whims of private investors - would force the government to walk down a slippery policy slope to please investors. At some stage it would be necessary to re-introduce the death penalty to allay private sector concerns about crime.

However, developing a shared consensus around a new Economic Growth Plan -including an Investment for Growth Accord - could increase levels of economic growth in the first few years and eventually draw in private (domestic and foreign) investment.

It is likely that investor concerns about crime, labour market flexibility, privatisation, the need for micro-economic reforms are just an excuse for lack of economic growth and the relatively small size of the SA market. Give investors a growing economy (and a good story) and it is possible that all these concerns could evaporate.

After all, Angola was the number one destination for Foreign Direct Investment in Africa last year. What is the situation in Angola when it comes to crime, labour market flexibility, etc?

ALLOCATIVE CAPITAL FOR PRODUCTIVE INVESTMENT: A problem of Financial sector policy or Industrial policy?

By Jabu Moleketi

The debate regarding allocative capital in South Africa is multi faceted.

Unfortunately, despite its importance to the transformation project, the public debate tends to be either simplistic or steeped in rhetoric. In this article we will focus on the institutional and systemic efficacy with which finance is mobilized and deployed to the private productive sector. In other words - the effectiveness of funds being deployed by financial intermediaries for industrial and infrastructure investment.

We will attempt to examine in a rigorous manner the theoretical debate concerning financial systems, followed by an analysis of current operations and possible options available in considering the way forward.

Theoretical approaches

There are essentially three broad theoretical approaches, which can be applied to a discussion of the role of financial institutions in the mobilization and deployment of funds for investment.

The first is ***the real resources approach***, which is mainly macro economic in nature and looks at the resources required to generate a given level of GDP growth. This approach looks at local savings and investment needs and the role foreign investment can play in filling the gap, which most often exists in developing countries and countries undertaking significant transformation. Many of the issues to be considered with this approach are dealt with in discussions about GEAR.

The second approach is the financial market approach, usually called the ***liberalization approach***, which deals with the financial system as a market similar to markets for any other goods or services. This approach focuses on financial liberalization and deregulation and is premised on an unwavering faith in the invisible hand of the market to provide optimal savings and investment.

The approach calls for as much deregulation of the financial system as is perceived to be consistent with macro economic stability. It is believed that as deregulation occurs, financial deepening will be encouraged and there will be a fuller range and use of financial assets in line with the needs of savers and investors.

Market-determined interest rates and exchange rates play an important role in this approach. It is this approach, initially described by McKinnon and Shaw, which became the cornerstone of the liberalization policies of the IMF and World Bank in the late 1970's and 1980's.



In this liberalization, laissez faire approach, financial institutions regard the interests of policyholders and shareholders as paramount. Funds are placed where safe returns are most likely to occur; technical and managerial involvement with the specific industrial borrower is minimal and investments tend to be shorter term.

The third approach is what is called the **financial systems approach**. This approach is built around the recognition of a structural separation between those who lend and borrow money, making an argument why this sector should not be treated like any other market for goods and services.

Fine (1997) explains the analytical content of the financial systems approach with respect to the informational asymmetry and uncertainty, which is unique to this sector. He writes that there are five questions, which have to be asked in a financial institution that is not relevant to other sectors:

- a. If I am to lend money, how am I to know who is a good risk and who is a bad risk?
- b. How am I to be sure that the loan is being used for the purpose for which it has been made?
- c. How am I to guarantee that the borrower, who is in a better position to know, is accurately reporting firm performance and prospects.?"

All the problems are not on the lender's side; the borrower also needs to know the answer to the fourth question:

- d. Will the lender tide the firm over unfortunate or unforeseen difficulties rather than forcing the company into bankruptcy and collecting on any arrangement for default collateral?
- e. What is to happen in the event of an unpredicted or unpredictable outcome, one that is not covered explicitly by the contract - who is to bear the unforeseen gain or loss and how?"

The majority of left wing or left leaning academics, comrades and observers believe that the most appropriate and useful theoretical approach to use in debating allocative capital in South Africa is this third, the financial systems approach.

It is believed to be superior as, firstly, it is theoretically able to address the specific role played by the institutions, an option which is not available in either the resource or market based approaches as explained above.

Secondly, the systems approach is able to explain the emergence of different types of financial systems globally whereas the market based approach falls short of adequately accounting for this, or how to explain how they function empirically.

More importantly, while the liberalization based model can only explain increased efficiency by implementing methods of deregulation and excluding all other options; the systems approach offers other options for efficiency gains, as well as the ability to learn from other financial systems.

The Financial systems approach - weaknesses and strengths

Due to the support for the systems approach by some in the Alliance, it is worth looking at it more closely. The financial systems approach is based on five theoretical propositions.

First, the systems approach shows that a deregulated financial system, which leads to financial deepening, can still be inefficient since the degree of certainty and imposing financial regulations can enhance efficacy of contracting.

Second, the approach highlights the importance within the financial and industrial system of monitoring investments before, during and after the application of funds. It expands the scope of monitoring beyond the traditional methods analyzed in the liberalization approach such as threat of takeovers, shareholders meetings etc.

Third, the liberalization approach can lead to 'short-termism' at the expense of long-term commitment on the part of finance to the goals of growth and productivity increases.

Fourth, unregulated financial systems can lead to inefficiently high interest rates, which discourage productive investment, and paradoxically, reduce the rate of return to lenders as only the riskiest of borrowers are prepared to pay such high rates.

Finally, this approach suggests that a resolution to all these problems is possible in part through closer collaboration between the contracting parties rather than reliance on the faceless machinations of a deregulated market.

The approach suggests that intimate knowledge and reputation are important in these contractual arrangements. Consequently, how banks relate institutionally to industry is of crucial importance.

Institutional arrangements: bank based or market based systems

Within this approach, what is then the best type of institutional arrangement to effectively answer the questions posed by Fine above? While Cox (1996) describes 5 possible institutional variants, the debate traditionally is reduced to two competing systems - the bank based system and the market based system.

In the **bank based system** there is an intimate relationship between the productive entrepreneur and the financial institution as seen in Germany, France and Japan.

The market based approach as seen in the US and the UK is more laissez faire and transactions typically occur at arms length.

In the bank-based system, also called the industrial banking approach (Cox 1996), institutions reject the inherent conservatism of sound and traditional banking practices and become intimately involved with the management of firms so as to better assess the long term growth potential of a particular industrial borrower.

Banks take greater risk and lend funds for longer periods of time. They have a more nationalistic and patriotic perspective that their own future viability as a bank will depend in part upon the long-term performance of the productive sectors of the economy.

Banks usually contract with such firms in a consortium with one lead bank. The systemic outcome can be one of lower interest rates and higher levels of investment.

At this point, it may seem obvious that a bank based system is superior to a market based system, given the transformational challenges facing South Africa.

In terms of expanding our productive sector and establishing a new and robust black owned SMME sector, it may be argued that a bank based system might succeed where our traditional market based system has been slow to support perceived needs.

Some issues with regards the bank based system

Despite the advantages of the bank-based approach; there are theoretical and practical shortcomings and concerns, which must be dealt with before any recommendations, or policy implications can be drawn.

First, academics such as Mayer, Corbett and Jenkins suggests that the sharp classification between bank based and market based financial systems is too simplistic and may lead emerging market policy makers to make potentially disastrous decisions.

The characterization of a financial system into one category or the other is based on criteria such as: the size of equity and bond markets, equity holdings of institutions and individuals, gearing ratio's etc.

Given the rapid internationalization of financial markets - with different types of assets and different regulatory environments - it is often difficult to create very sharp distinctions between the two. Most commentators now agree that virtually all systems have components of both a market and a bank based approach within their current institutional arrangements.

Second, the requirements made of a financial system change over time depending on the cycle of economic development. For example, financing trade on a short term basis may be very important in a country embarking on a robust industrialization drive; however it could be argued that a bank based system is less important in a country that already has a group of large scale corporates and conglomerates, with access to funds from varied sources. This explains why a traditionally bank based economy, such as Japan, is willing to embark on financial liberalization.

Thirdly, the character of the financial system is not purely dependant upon the terms of its structural separation from industry and how they interact with one another; nor is the structures or functions invariant over time. The impact of the broader context within which the financial system operates is crucial, with a set of variables not always fully addressed by the systems approach. While this point is emphasized by Fine, the authors concur, but still believe that these elements are more capable of being incorporated into the financial systems approach than the liberalization approach.

In Japan, for example, when the system of lifetime employment was a crucial element of industrial policy, financial institutions were forced to stave off bankruptcies, because the resultant job losses would have been unacceptable within the society at large. Financial institutional arrangements thus reflected the nation's priorities and culture. These three points all raise doubts about the suitability of the systems based approach for South Africa. Fine (1997) raises three additional points, which are worth mentioning briefly.

First, he points out that the financial systems approach depends on a clear distinction between physical assets and financial assets and how one is best served by the other. However, he points out that during economic transition property rights themselves may be transformed which affect the value of real and financial assets and which change the interaction between the two.

A related point, which he does not mention, pertains to the increase and complexity in financial assets in the new global arena, which are on a daily basis clouding the traditional distinctions between physical and financial assets.

Fine's second point is that the financial system's bank based approach is a justification for state intervention in finance and the financing of industry. While he concedes that such intervention may have positive effects, he stresses that such initial interventions may

"provide the momentum for more extensive intervention which either finance, industry or both have an incentive to resist".

So for example, when Cable (1995) was calling for the British financial model to be changed to a German styled bank based system, some of the hardest critics of the proposal focused not on the changes necessary in the banking system itself, but the changes in company law which would be required to accompany such changes in bank regulation.

The final point Fine makes is that one cannot underestimate the financial sector's power within the economy and it's ability to impose 'penalties' if it is displeased with economic and/or industrial policy.

This entire theoretical argument leads us to the conclusion that to distinguish the financial sector from the real economy in sharp terms would be short sighted and ineffective as part of a growth strategy.

Second it can be concluded that more rather than less co-ordination between finance and industry is desirable, and that co-ordination and discipline can in principle be provided by the state within a given system so as to increase the efficiency of that system.

Finally, there is a general conclusion in the literature, that despite its shortcomings, the route of a bank based system similar to that of Germany and Japan is a desirable route to follow, especially for a developing country.

However, financial systems are complex and socio-economically specific and one should avoid drawing simplistic lessons from comparative experiences.

The South African financial system

Our financial institutions have evolved from the British model and can be described as functionally market based, rather than bank based.

The leading financing institutions are:-

- Commercial banks which are highly concentrated and hold short term assets and liabilities;
- Insurance companies which are based on longer term contractual savings; and
- The Johannesburg Stock Exchange which plays a relatively minor role in mobilizing and deploying investment in the productive sector.

These features suggest that - using the financial systems approach - one would expect South Africa to exhibit limited capacity in the monitoring of investment finance. However, nothing could be further from the truth. The concentrated, inter-linked, conglomerated corporate sector is such that many companies straddle both financial and industrial enterprises. At one level South Africa thus operates at a high bank model level, with strong internalization of capital markets due to mutual ownership of the big conglomerates.

We will not enter into the debate about the conglomerates, except to highlight two key issues. The first is that the majority of the local conglomerates are still focused on mining and energy-related activities rather than manufacturing. Thus, even if the bank model exists theoretically - in practical terms and in some sectors with respect to secondary production - one can say that the model is less developed.

To the extent that the bank model is effective within the secondary production sector, the high level of ownership concentration continues to apply. This continued high level of concentration in the manufacturing sector is a contributing factor to stagnation of investment levels. It is a challenge to foreign investors who find it immensely difficult to negotiate joint ventures or negotiate terms in highly vertically integrated markets. The point being made here is that an oligopolistic financial system is not efficient and will not offer a full range of financial products to meet all market needs.

Secondly, the strategic vision of local conglomerates tends to be globally orientated. There is thus an equally great (if not greater) desire to invest abroad as there is to restructure and regenerate local industry. In this scenario business confidence and macro economic stability are crucial and as more success is achieved in these areas, so there will be an increase in the demand for liberalization and the conglomerates' capacity to move capital off-shore.

The point being made is that while the fortunes of the financial system and its institutions may be on the rise at present; the structure of the system and the forces at play vis-à-vis the industrial base of the country are not commensurate with the regeneration of the manufacturing sector nor the emergence of a strong SMME sector.

To summarize, these structural features of the current system include:

- The emphasis on the international mobility of financial assets at the expense of domestic investment in the real economy;
- Reliance on short-term speculation, borrowing and lending; making the economy vulnerable to economic downturns and leaving the productive sector starved of adequate long-term investment;
- Prioritizing international financial policies and norms at the expense of policies which support a local industrial policy; and finally
- The current system allows for limited co-ordination between the provision of industrial finance and the implementation of medium to long-term policies for industrial development.

Restructuring of the financial system

Restructuring of the financial system should therefore be aimed at achieving the following three goals:

- To help finance expanded government expenditure on social and economic infrastructure at the lowest cost possible
- To provide adequate investment for industrial consolidation, growth and development not only in the larger formal sector, but also for emerging SMME's.
- To align financial policy to the goals of domestic growth and social equity rather than those dictated by "business confidence" alone. Despite systemic weaknesses in the institutions and policy-making arena regarding these three goals, there have been substantial progress since 1994.

The restructuring of ownership on the JSE towards big black business, promotion of small scale enterprises through Khula, Ntsika and the IDC, housing and rural finance schemes and the activities of the DBSA and Land Bank are all very positive signs. Moreover, the Spatial Development Initiative projects, which allow all three tiers of government to co-ordinate their activities with the local and international private sector and the recent development of the Public-Private-Partnerships unit, enhance the prospects for functional co-ordination between DTI and Finance.

The Finance Department's Framework for the Transformation of the National development Finance Institutions should also be applauded as it seeks to streamline the institutions involved, allocating them specific functions and establishing a co-ordinating council to promote joint ventures among both private and public investors.

However, there are two views regarding industrial strategy. On the one hand there is a view that there is no industrial strategy and that this is evidenced by allocative inefficiency, particularly where there is major public sector involvement. A particularly stark illustration of this is public sector subsidisation of passenger road transport. In Gauteng alone this amounts to approximately R 500 million per annum and in certain instances the level of subsidisation per individual per annum exceeds the annual wage per individual per annum, resulting in a net loss of financial and productive economic resources. Another example of this would be the effects of labour legislation on the development of SMME's.

The alternative view is that there is an industrial strategy, but that there is lack of co-ordination, and that the aftermath of apartheid planning militates against efficient resource allocation, with distortions in distribution of wealth, and opportunities for monopoly profits by large corporates.

Irrespective of the view held, the key issue is co-ordination between Finance and DTI and other departments. The breadth, depth and prioritization of projects and initiatives, government's ability to strengthen co-ordination, monitoring and deployment of funds are the vital issues at stake. Furthermore, the co-ordination of policy making procedures of departments such as Communications, Transport and Public Enterprises, are as important, because they directly impact on industrial development.

CONCLUSION

It is therefore our contention, that the greatest shortcoming in South Africa's ability to deploy investment capital to the productive sector is not so much the hybrid financial system which operates in our country but, rather:

- Inadequate co-ordination of investment across sectors
- Inadequate formulation, implementation, prioritization and monitoring of sectoral strategies
- Inadequate co-ordination across government and other agencies
- Inadequate appreciation of the power of large corporates and the need to integrate their activities with the regeneration of the industrial sector; and
- A macro economic strategy, which is unduly influenced by financial rather than real sector economic imperatives.

THE FINANCIAL SECTOR AND INVESTMENT

Dr Neva Seidman Makgetla

The debate about the role of allocative capital - in essence, about the role of the financial sector - has arisen for two main reasons. On the one hand, financial institutions frequently act as spokespeople for all of business. Yet their interests may not reflect the needs of other sections of capital, in particular manufacturing, agriculture, and small and micro producers. On the other hand, shortcomings in the financial sector have contributed to the decline in investment in the last two years, as well as the failure of financial institutions to adequately contribute towards the development of historically disadvantaged communities.

To develop appropriate policies, a critical question is whether the problems with the financial sector reflect inescapable economic imperatives, or the nature of the sector and its management. In the event, the sector is highly concentrated and conservative, which contributes to the failure to find more constructive and creative responses to South Africa's developmental challenges. But the financial sector alone cannot overcome the obstacles to development. By extension, measures to transform the financial system must be embedded in a coherent and comprehensive development strategy.

A review of existing policy points to the lack of a clear-cut strategy or responsibility for ensuring that the financial sector plays a developmental role. In the past few years, some government bodies have taken decisions that reduced the flow of funds to the public sector and could lead to a significant outflow of retirement funds from South Africa.

This paper first reviews shortcomings with overall investment and with financial services. It then considers broader debates on the role of financial institutions in development and the existing policy framework. Finally, based on this analysis, it proposes some strategic directions for transforming the financial sector.

Problems with the financial sector¹

In any forum debating economic policy, officials of the big financial houses and the Chamber of Mines typically represent business. This situation largely reflects the fact that these institutions employ their own economists.

Yet financial institutions have a peculiar role in the economy, which means they may not reflect the interests of productive capital and which often gives their inputs to economic discussions a certain theoretical flavour.

Typically, their spokespeople focus on fiscal and monetary restraint as important signals for portfolio investors from overseas, without considering whether contractionary policies depress local investment and economic growth. Similarly, they demand limitations on labour rights, without looking at the cost in terms of increased conflict on the factory floor and reduced skills development.

Financial institutions have a special role in directing investment and thus economic growth. By managing deposits and contractual savings (especially pensions and long-term insurance) they effectively centralise savings from both enterprises and individuals, including workers. They then re-allocate these resources to other economic actors and purposes. A key role is to provide loans to enterprises for investment and bridging finance. Moreover, consumer demand for housing, cars and appliances depends heavily on credit.

These processes give financial institutions a degree of control over much of the economy. In effect, they largely determine how other sections of capital access savings from throughout the society. They thus affect the structure of investment overall, as well as the access of individuals and communities to financial services.

As a rule of thumb, rapid economic growth and development requires that investment absorb between 20 and 25 per cent of the GDP. Compared to this benchmark, investment in South Africa remains disappointing, at around 15 per cent. Moreover, it actually declined in the past two years. Although private investment rose 25 per cent in the three years to 1997, it declined 7 per cent between 1997 and 1999.

Structural problems with investment have persisted, with inadequate growth in employment-generating activities and infrastructure. This problem emerges from the fact that, since before 1990, formal employment has declined. In the past three years alone, Statistics South Africa figures show that South Africa lost almost one in ten formal jobs, resulting in worsening poverty and inequalities.

Virtually every study finds that high real interest rates were a major factor behind low investment. For the past five years, the prime interest rates charged by financial institutions have consistently ranged around 8 per cent above CPI. Moreover, the rate charged borrowers has been 7 per cent or more above the amount paid on medium-term deposits, and even higher relative to current deposits. Smaller borrowers and households pay significantly more than the prime rate. In 1999, the average rate paid by municipalities was even higher than mortgage bonds.

High real interest rates were fuelled in part by government policies aimed at attracting foreign buyers of South African bonds and shares. That does not, however, explain the problem in full, since even for prime customers the banks charged about 4 per cent over the Reserve Bank's repo rate.

While high interest helped attract portfolio investment, it discouraged both domestic and foreign direct investors. Foreign direct investment remained disappointingly small and variable. At the same time, financial institutions increased their investment of South African savings overseas, which grew even more rapidly and much more steadily than investment into South Africa.

In 1997-'99, the capital outflow equaled about two thirds of the capital inflow, compared to under half in 1994-'96.

A growing concern has been the failure of the formal financial sector to support the growth of small and micro enterprise and low-income home buyers. According to the Department of Trade and Industry input to recent Parliamentary hearings on this topic,²

The National Enterprise Survey, commissioned by the President's Office and the support of the Ministry of Trade and Industry had reported that black-owned firms find it more difficult to access finance than their white counterparts. The same survey found that while access to finance was not a major problem for South African companies generally, it was for black-owned SMMEs.

Even where the government provided credit guarantees to small and micro enterprise through Khula, formal lenders remained reluctant to provide loans. The impact emerges in the transport sector: in



February 2000, banks had lease and installment financing on their books for new and used personal cars to the tune of R27 billion; but they had extended only R600 million for minibuses.

At the same time, the government's housing programme has been hampered by the reluctance of the banks to lend to low-income home-owners, even if they had received a government housing grant. Overall, housing loans by banks peaked in 1996, at R40 billion; they plummeted to R32 billion in 1998, when interest rates soared, and reached only R38 billion in 1999. Well over half of mortgage bonds went to housing for the higher-income group. In contrast, mortgage bonds on commercial property were 30 per cent higher in 1999 than in 1996.

Finally, formal financial institutions have remained reluctant to extend their networks of branches and ATM machines into black communities. People living in small towns in the former homeland areas must often travel long distances to access banking facilities. In itself, this lack of infrastructure makes it difficult for people to access modern financial services.

In the absence of credit from the formal sector, the majority of the population has had to rely on stokvels and mashonisa as sources of loans. These solutions mean they are effectively excluded from the main sources of capital in the economy, resulting in higher interest and limited credit. Stokvels face built-in constraints on the size of loans, and require relatively high savings rates. Moneylenders typically charge very high interest, are unreliable and have relatively limited resources.

Control in the financial sector

Formal financial institutions can contribute to development by funding innovative projects that expand employment and output, by lending to small and micro enterprise, and by supporting the development of infrastructure and housing.

Throughout Africa, the financial sector has failed to play this role. Two perspectives have arisen to explain this failure, leading to divergent proposals. In one view, typically stressed by the bankers themselves, it reflects economic realities. In this case, the only solution is for the government to subsidise loans to new projects, infrastructure and small-scale borrowers. A contrasting view holds that formal lenders themselves are prejudiced and conservative. Even where other projects would prove profitable, they are willing to lend only to the large-scale, often foreign-dominated activities with which they are familiar. Where a small number of institutions dominate the sector, this situation is more likely to persist. In this case, measures that prevent discrimination will help.

In South Africa, it seems that both economic realities and deep-seated prejudice contribute to conservative lending patterns. On the one hand, the dominant financial institutions are highly concentrated, with a tradition of serving only the white community. On the other, the failure to introduce coherent and comprehensive measures to restructure the economy makes innovative projects less creditworthy.

The South African financial sector is certainly oligopolistic. Twelve of the top 15 companies in South Africa are banks, investment houses or insurance companies - the exceptions are Anglo American, De Beers and Transnet. In 2000, the commercial banks reported deposits of R560 billion; the four biggest banks - Absa, Standard, FirstRand (FNB until 1998) and Nedcor - controlled 70 per cent. They held over 90 per cent of government deposits, and 80 per cent of deposits by individuals. Not surprisingly, the Department of Trade and Industry told the Parliamentary hearings on banking and small enterprise that "*the lack of competition in the banking sector remains a fundamental problem.*"³

Historically, the large financial institutions served almost exclusively large-scale business and, among individuals, the white community - which effectively constituted the top 15 per cent of income earners in the country. Estimates suggest that before 1994, under 2 per cent of credit went to black entrepreneurs.⁴

The practice of serving a limited, well-defined group gave rise to conservative methods of assessing risk. In deciding on whether to extend credit to individuals, for instance, bank managers focus heavily

on credit history and references. That approach effectively favours those who have already received credit, and have upper-class connections.

In the past fifteen years, the South African banks have prided themselves on their innovative approaches and use of electronics. But they have not proven particularly innovative in financial terms. This emerged in the failure to find effective instruments to get funding to low-income housing and small and micro enterprise. It is noteworthy that it took a new institution to initiate the system of packaging mortgage bonds together into a marketable instrument, which permits substantial reductions in interest rates - a practice that has existed for decades in other countries.

After its hearings on banks and small business, the Parliamentary Portfolio Committee on Trade and Industry concluded,

There are too many black-owned small businesses who complain that attitudes to banks are less than positive, and feel that relationships are "at an arms length" for this dimension to be ignored. Entrepreneurs complain of an alienating and unsympathetic environment and there is a clear perception that black businesses are viewed less favourably than white.⁵

It seems likely that discriminatory perspectives and procedures mean that formal financial institutions consistently overestimate the risk of lending to small-scale entrepreneurs and poor households. After all, informal lenders, small co-operative banks and NGOs, and hire-purchase firms have succeeded in providing credit in poor communities on a fairly large scale. Indeed, the repayment record of small-scale producers to the banks is often better than that of larger ones - although this may in turn reflect the stringent requirements imposed on the few who get loans.

In theory, if banks are making consistently inappropriate decisions by refusing to fund worthy projects, their competitors should fill the vacuum. That would ultimately compel economically rational behaviour. But this mechanism fails in concentrated markets where the dominant actors share the same prejudices.

Still, while discrimination certainly plays a role, genuine economic obstacles hinder lending to innovative projects, small producers and low-income consumers. Small enterprise, in particular, typically have a very high failure rate and relatively low profits. Furthermore, lenders contend that the administrative costs on small loans are not much lower than on large ones. The cost then makes up a higher percentage of the loan, which leads to higher interest rates.

Various factors besides the lack of credit hinder the growth of small-scale enterprise. All too often, these producers do not have consistent access to skills, markets or infrastructure. Often they are forced into overcrowded sectors, such as taxi transport or spaza shops. With the contraction in employment and slow growth, they face uncertain markets and growth prospects. In the absence of a comprehensive development strategy to address these obstacles, credit alone will not bring about success.

Similarly, low-income families often pose high risks for banks. Half of all households earn under R1000 a month. Given the rapid loss of formal jobs, low incomes for many working people, and high dependency ratios, they will find it hard to repay loans. Substandard construction in some low-income housing estates also makes a mockery of the normal collateral for housing loans. Again, unless the underlying social and economic factors are tackled, especially by expanding quality employment, increased access to credit by itself may aggravate difficulties in the long run.

In sum, two arguments exist about the failure of banks in South Africa, as throughout Africa, to contribute to the growth of small enterprise, innovative projects and low-income housing.

- A focus on economic realities points to the need to provide broader assistance to potential creditors, for instance through skills development, infrastructure, help with marketing and supplies for small business and greater stability in employment and incomes for households. Financial innovations and subsidies to organisations that lend to particular classes of borrowers may also make sense.

- If the problem arises from discrimination, standard solutions to control prejudice seem appropriate. They include requiring lenders to give reasons for turning down loan applications, with rules against biased criteria, and to report on the distribution of loans.

The policy framework

Based on the experience of South Africa and the rest of Africa, the RDP proposed that banks be subject to anti-discrimination measures and that they be compelled gradually to increase the share of credit going to black customers. These proposals have not been implemented. Government has not published any comprehensive policy document, such as a White Paper, on the financial sector.

The institutional design of the regulatory system hinders the establishment of policies to make the financial sector contribute more strongly to development. The regulation of financial institutions falls to the Reserve Bank and the Department of Finance in conjunction with the Financial Services Board (FSB). The Reserve Bank, in particular, sees the main aim of regulation as protecting depositors, even if the resulting requirements make it difficult to support innovative lending strategies. The regulations have not been reviewed consistently to ensure that they go as far as possible to ensure the financial sector plays a developmental role.

In the absence of a coherent policy, several decisions by government seem likely to aggravate the negative role of the financial sector. Virtually none of these decisions was shaped by a consistent analysis of the impact on broader developmental goals.

- The FSB is currently planning to revise Regulation 28, which sets standards for retirement fund investments. It plans to increase the amount invested abroad from 15 per cent to 30 per cent - a move that could fuel a massive outflow of workers' savings and a corresponding decline in investment.
- The proposed changes in Regulation 28 effectively indicate that retirement funds could reduce their holdings of public-sector bonds, which currently come to R32 billion. This change could raise the cost of borrowing by government.
- Already, over the past four years, the Department of Finance has overseen a substantial shift in the holdings of government and parastatal pension funds out of public-sector bonds into shares. Between 1995 and 1999, public-sector stock dropped from 73 per cent to 48 per cent of the assets of public-sector pension funds, while shares rose from 12 per cent to 31 per cent. In real terms, the holdings of bonds dropped 15 per cent, while holdings of shares more than doubled. If these pension funds had not changed their investment policies, they would have held R50 billion more in government stock in 1999.
- Government does not appear to have a policy on locating its deposits to support a more equitable and active financial sector. In 2000, central and provincial governments held R36 billion in bank deposits, with 94 per cent in the top four banks. In contrast, the Community Bank reported no government deposits at all in the mid-'90s. The Community Bank, which was ultimately closed by the Reserve Bank because it was overextended relative to its deposit base, provided most home-loans to low-income consumers in Gauteng.
- More generally, there is no visible policy to ensure that the structure of the financial sector is shifted toward greater openness and flexibility. No policy measures have ensured broader participation in ownership in the sector. Nor has any strategy been instituted to improve support for stokvels or other innovative kinds of financial institution. The Reserve Bank itself admitted to the Parliamentary hearings on banking that restrictive regulations limit innovation in this regard. New structures, such as village financial services co-operatives, have had to operate on the basis of exemptions from the regulations. ⁶

Some alternatives

Review of the current weaknesses in the financial sector points to the need for an effective strategy to change the direction of credit and investment on a large scale. As with any attempt to regulate business, the question becomes how far government can compel changes in behaviour. Faced with any attempt to change its decisions, business will threaten an investment strike; the question, as with any strike action, is whether and when it would make the threat a reality.

Government has a variety of possible instruments for affecting decisions by financial institutions. They include the location of government accounts; requirements around the direction of credit and establishment of outlets; support to new kinds of borrowers; deposit guarantees up to a limited sum, in order to protect lower-income depositors; tax incentives or sanctions; anti-discrimination requirements and procedures; and direct support for innovative forms of financial ownership, such as co-operative banks and stokvels.

COSATU has long argued that an appropriate strategy must aim to broaden ownership and control in the financial sector; ensure that financial institutions cannot discriminate on the basis of race or gender; and link into broad developmental programmes to support reconstruction and development. In the absence of a well-defined and vigorous development policy for the economy as a whole, substantial changes in the financial sector seem unlikely to succeed.

Specifically, COSATU has called for:

- Prescribed assets, where financial institutions are required to direct credit to specific kinds of borrowers or projects.
- The development of laws and other measures to support co-operative banks, which are owned by workers and/or consumers.
- Strong measures to end monopolistic practices. It may well be that the economy needs large banks, but they should not be allowed to impose excessively high real interest rates or discriminate unfairly against some classes of borrowers.
- More efficient methods of financing the Government Employees' Pension Fund, which at least a partial shift to a pay-as-you-go system, in order to release funds for other government purposes.
- A review of all regulations on the financial sector, including Regulation 28, from developmental perspective. Any changes in Regulation 28 must be subjected to an analysis of the impact on overall investment and development, and negotiated in NEDLAC.

DEBATING CASTELLS AND CARNOY ON THE NETWORK SOCIETY¹

The Gauteng Seminars
Dr Andre Kraak

INTRODUCTION

Manuel Castells, world recognized Professor of Sociology at Berkeley University, and scholar of globalisation, toured South Africa in June this year.

This report provides a summary and interpretation of the discussions that took place at a two-day seminar led by Manuel Castells and Martin Carnoy, Professor of Education, Stanford University, on the 22 and 23 June 2000 in Gauteng.

The report begins by summarising the key features of the Castells and Carnoy theories on globalisation.

It then focuses on one of the key issues that arose during the deliberations - that being the role of the nation state during the era of globalisation.

The discussion concludes with Castells giving an outline of his views on the way forward. He makes a very specific proposal for a 'Technological Marshall Plan', which he sees as a critical strategy for bringing the under-developed Third World into the global economy on more equitable terms.

THE CASTELLS THESIS

Castells maintains that phrases such as '*globalisation*', '*informationalism*' and the '*network society*' are all different code words to describe the same thing - the new global economy.

He suggests that this new global economy has the following critical features:

- a. **New technologies:** The new economy has been kick-started by major breakthroughs in five areas of technological progress: micro-electronics, computing (both hardware and software), telecommunications, opti-electronics (advances in fibre optics) and biogenetic engineering.
- b. **Informationalism:** These technologies all share one key characteristic: they all involve the generation, storage and manipulation of information. This means they can all be used together, or in combination. Each technological development supports the other, and combinations of these advances create new onward movement. Castells calls this 'Informationalism'. It raises knowledge and information to a new and central position in the historical development of capitalism.

In pre-capitalist, agricultural societies, labour and natural resources were the key ingredients for economic growth. Since the industrial revolution this changed to energy resources (like steam, oil, coal, electricity etc).

Throughout these earlier periods, new knowledge has always been applied to the way goods are produced in order to produce them more efficiently. Under *informationalism*, it is how we use information in production that is different. More specifically, it's the way that information can act on itself. By using the new technologies together, we can generate new knowledge and combine our knowledge and information in different ways in order to innovate*. This ability is the hallmark of economic success today.

The new economy is global: The new technologies also mean that world economy activity can carry on as if it is in one place and not spread across the planet. Information can reach virtually any part of the globe as soon as it is created. A news event, or the production of a car component on one side of

the globe can immediately be seen on a monitor on the other side. Until the late 1970's, the world economy was not connected in this way. Geographic areas were, to some extent, isolated from each other.

The *core activities* of the economy have therefore been internationalised, using the new technologies. These core activities include:

- Financial markets,
- High value-added exports (like cars, or computers)
- Multinational corporations (MNCs),
- Science and Technology (S&T), and
- The production of highly skilled person power.

All these activities can now all operate across the globe at the same time. You can buy shares on a world market from your computer at home, at any time of day or night. Or a company in New York can know exactly how many cell phones are produced in a Beijing factory in real time: the monitor can change as soon as each cell phone comes off the production line. These things are possible because of combinations of computing and telecommunication technologies.

A networking logic: The massive expansion of global trade has led to important changes in the social organisation of production. A *network logic* now lies at the heart of capitalist production. This has occurred for a number of reasons.

Firstly, the large multi national corporations (MNCs) of yesteryear, which were organised as single administrative units, have given way to *networks between MNCs and smaller (out-sourced) enterprises*. These combinations are more innovative and more profitable.

Secondly, the new information and communication technologies (ICTs) have *allowed many smaller firms to leapfrog the limits of economies of scale*. High-tech small firms, which don't cost much to set up, are now leading the way in terms of creativity and innovation.

Thirdly, the demand for continuous innovation and re-combining of information (which is the new basis for profitability) *requires co-operative relations between enterprises*. This is necessary to cover the large costs of research and development (R&D) and the training of the workforce. On their own, firms would not be able to cover these costs, so they are forced to work together.

Fourthly, the global practices of MNCs have changed from that of Foreign Direct Investment (control from the outside) to *that of decentralising and integrating the links between enterprises* (control from within) in a variety of world markets.

With Information Communications Technologies (ICT), MNCs can co-ordinate several locally owned firms in different parts of the world in the process of producing a single good from different components (for example, different parts of a car can be manufactured in different countries and assembled as the finished product in yet another country). Cross-national linkages are made possible through 'on-the-spot' market information. Production is localised at the same time as it is being internationalised.

And lastly, *networks are the most appropriate forms of organisation* for the new economic conditions, which are relentlessly changing, becoming more complex and which therefore require the ability to adapt fast and to be flexible.

The decline of the nation state: The process of globalisation is pervasive, impacting on all aspects of social life. It is associated with the decline of the nation state. The overall impact of globalisation has been to de-link financial capital from actual production, and to increase the dependency of national economies across the globe to the dictates of fluctuations in financial markets.



The power of nation states to stabilise domestic economic conditions through fiscal and monetary policy has been severely undermined. Financial capitalists can act with speed to shift investments from one ailing industry (or risky country) to another anywhere in the global economy.

A negative impact on social development: The network logic of globalisation is innovative and creative. But it's also brutal and socially destructive. Whilst linking up all the innovative and productive centres of the world, it also acts to exclude those societies that are unable to hook into the new technological and information-based economy. These societies become, 'structurally irrelevant' to the new global economy.

A new 'Fourth World' has been borne. Castells says that the condition of about two-thirds of the world's people has remained the same or deteriorated in the last eight years because of globalisation's devastating impact.

The decline of social identities: Both Castells and Carnoy argue that with the decline of the nation state there has also been the demise of key social and cultural institutions and identities that have historically been part of the nation state. These include institutions and concepts such as 'citizen', 'trade union', 'nuclear family' or 'political party'. Key social institutions and state agencies have lost their legitimacy. New forms of social identity are emerging around new things like ethnicity, religion and community.

THE ROLE OF THE STATE IN THE ERA OF GLOBALISATION

A central element of the Castells and Carnoy ideas on globalisation is their view that globalisation has precipitated the decline of the nation state. This happened mainly because globalisation has made all national economies depend upon the performance of their financial markets. And these financial markets are globally integrated. The state has therefore lost control over monetary policies and interest rates - key levers of national economic policy.

In addition, these economic developments are accompanied by other social changes that have drawn attention to the decline of the nation state. They are:

- **The decline of the social welfare system.** This includes the demise of a social safety net including unemployment, health and other social benefits for the poor and sick. It also affects protected labour markets, minimum wage legislation, and the system of industrial relations built around negotiation with a strongly organised union movement.
- **Changes in the labour market** centred mainly on the rise of 'flexible labour' and the growth of part-time, self-employed, non-formal and other forms of temporary and outsourced employment.
- **Changes in class consciousness:** Where the majority of workers are based in large factories all making the same product moving along the same conveyor belt, working class consciousness was diluted by a consensus-seeking industrial relations system. This system drew workers into values such as being a 'citizen', being a member of a 'nation', and benefiting from the protection of a common state. Under the new economy, these forms of national and class identity are falling away, with the social organisation of work today being highly individualised, and with each individual worker performing very different tasks.

The above social institutions and social processes that formed the bedrock of the nation state are now in decline. In the process, the nation state has lost its legitimacy and power.

GELB'S DISAGREEMENT WITH CASTELL'S DEPICTION OF THE STATE

Stephen Gelb, Senior Economist at the Development Bank of Southern Africa, disagreed with Carnoy and Castell's portrayal of the state. He says there is an inconsistency in their argument:

- On the one hand, they argue that the nation state is losing power and is in decline;

- On the other hand, they acknowledge the critical role that was played by the state in the economic success of the advanced economies and the newly industrialised 'Asian Giants' (the developmental state).

Gelb disagrees with the first point above, that under the conditions of globalisation, the state has lost its power and is 'adrift'. He rejects this view that the state is about 'control' and 'coercive' power. Instead, Gelb says that states have 'infrastructural' power. This means they can politically and economically lead the productive classes like workers or capitalists. By doing so, they can promote development and therefore maintain their legitimacy.

Capitalist states have never really had true 'despotic' power (to control and coerce). They have always had to make key choices and compromises amongst a range of strategic objectives. The power of the state is derived less from despotic control and more from things like:

- The key macroeconomic choices it makes,
- The social and technological infrastructure it lays out for development to take place, and
- The strength of social partnerships it forges with other social classes.

It is power that comes from acting together with others through strategic collaboration, not power over others through coercion. Other features of this interpretation of state power are that it is penetrative - it needs to penetrate the ruling classes (i.e. capitalist class) and provide them with strategic leadership.

The relationship is also reciprocal. The state provides the capitalist class with incentives for development and these incentives are withdrawn if development doesn't take place.

And finally, the benefits of growth are shared across the state and the ruling classes as well as other social strata. This is how countries like Japan and South Korea became 'miracles' with the help of a developmental state.

PARTICIPANT RESPONSES

South African participants were most 'agitated' to respond to the debate on the nation state and its contemporary role.

Since South Africa only achieved democracy in 1994, many people feel the need for a strong developmental state. South African participants were particularly driven to respond to much of Carnoy's input, which spoke of the naiveté of third world strategies which sought to stay outside of globalisation or hoped for the eventual demise of globalisation.

Carnoy had argued that 'we should not build a political strategy around the notion of globalisation's unsustainability. This would be a big error'. He did not advocate incorporation into the global economy on any terms, but 'described its reality and the inevitability of incorporation'. We should not 'deny the existence of this powerful politico-economic force'. Similarly, Castells stressed the 'need to join the global networks. Self-reliance was not an option'.

Speakers from the floor such as Karl Von Holdt from Naledi and Hein Marais, a journalist, were strongly opposed to the idea of accommodation with globalisation. They were not convinced of the notion of the decline of the nation state. The weakening of the state, they argued, was not inevitable and unstoppable but rather a result of neo-liberal policies such as GEAR, which were stripping the South African state of its key assets and capabilities. They believed that key social institutions such as the progressive trade union movement still had currency.

They said that Carnoy and Castells should articulate a political strategy or programme of action that defined an appropriate way forward for the Third World. Von Holdt asked:-

- Could the state resist and reshape the terms of its incorporation into globalisation?

- Would an oppositional movement made up of many states have an impact?
- What were the prospects of the new social movements emerging across the world opposed to the globalisation agenda - for example, the anti-WTO Seattle-style protests?
- Were there not local as well as global strategies that could be mobilised to shape the terms of engagement with globalisation?

Von Holdt was adamant that he was not arguing for isolationism. Forms of resistance to globalisation did not stop or prevent engaging with globalisation, but it had to be on terms more beneficial to developing societies.

THE SOUTH AFRICAN GOVERNMENT'S VIEW ON THE AGENCY OF THE STATE

The Head of the South African Government Communications and Information Service (GCIS), Joel Netshitenzhe, argued that the new democratic state in South Africa had a critical agency or developmental function, but that this capacity needed to be understood against the background of its fragile and incomplete transformation from the previous Apartheid regime to the current democratic era.

This fragility arises from the political compromises made, most significantly, the reconciliation of both race and class relations that underpinned the settlement in 1990. This compromise has limited the new state's powers to act decisively. South Africa's re-entry into the global economy has also weakened the new state primarily because of the power of financial markets and their 'susceptibility to subjective manipulation'.

However, the democratic state is being viewed by the new political dispensation, according to Netshitenzhe, as the vehicle for a substantial national democratic project of transformation. Elements of this transformation include:

- Leadership role: The state leading the process of social transformation, with its cadres remaining true to the task. For this we must avoid the 'danger of social distance developing between those who operate in the state and government, and the people that they are supposed to represent'.
- A development role: There are huge resources in the hands of the state. It has access to a wide variety of capital: fiscal capital (taxation), state capital (public enterprises), social capital (trade union funds, pension funds) and allocative capital (the regulation of the allocation of private capital). The state also possesses the power 'to leverage investment through procurement, through incentive prescribed assets, public-private partnerships and licensing.'
- Managing contradictions: 'The state has to manage the primary contradictions that emerge from this phase of social development, particularly the processes of inclusion and exclusion described by Castells.

The state must ensure that its relations with capital are those of both unity and struggle - unity in the sense that there are many things that can be pursued in partnership, and in struggle because the state also seeks to regulate the operations of capital and the market'. All of these resources, according to Netshitenzhe, can be deployed for socio-economic programmes, for improving the quality of life and for the building of infrastructure. Netshitenzhe summed up his response to the debate about the state by arguing:

The state is therefore not a helpless entity in relation to capital. Even under the conditions of globalisation it has direct and indirect leverage on the employment of capital. Of course, this will be tempered by all the realities of globalisation but this does not subtract from the principle. It merely affects the extent, the timing and the articulation of the intentions....

Most of the objective difficulties facing the state can be changed, but they require an accurate reading of the balance of forces that will define the tactics to be adopted at each stage of the transformation....

Objective circumstances are not carved in stone. Any balance of forces is dynamic, influenced by changing endogenous and exogenous factors. That's the challenge we face.'

CASTELLS CONCEDES THAT THE STATE HAS A KEY ROLE

As was first highlighted by Gelb, there was an interesting and on-going inconsistency in Carnoy and Castells' arguments that was picked up at the seminar. On the one hand, they maintain that globalisation occurs at the expense of the nation state, but on the other hand, they concede that the stabilising role of the state is on-going and beneficial to global capital:

... the legitimacy of the nation-state and its capacity to enforce the underlying rules and regulation of national market economies through democratic means and smoothly running political apparatuses, as well as to support a well-developed market information system, are important to global finance capital.... Global capital's "co-dependence" on smoothly functioning civil-political societies offsets some of the decline in national autonomy we have described. (Carnoy and Castells, 1999:32-33)

In addition, Castells writes that an educated labour force - a critical ingredient of the informational economy - also requires 'good health, decent housing, psychological stability, cultural fulfilment' - the key qualities of the traditional welfare state. Castells acknowledges this by writing that 'welfare states, minus their bureaucratic undercutting and wasteful civil service perks, could be sources of productivity rather than budgetary burdens' (Castells, 1998: 17). The provision of these benefits is dependent on the restructuring pathways chosen by nation states in adapting to the dictates of globalisation - the neo-liberal 'cost-lowering' model, or the more social democratic 'productivity enhancing model'. (Castells, 1998: 17)

In the Gauteng discussions, Carnoy and Castells conceded that different state models lead to different social policies and institutional arrangements that have a differential impact on the quality of life. Castells notes the important role of state policies 'in shaping the engagement with globalisation, but restricted within the context of possibility'.

Left-leaning governments across the world (for example, Jospin in France and Cardoza in Brazil) are trying to adopt policies that simultaneously modernise the economy yet continue to maintain key social institutions and programmes that benefit the people.

In response to a question regarding African states, Castells suggested that these states were in many cases 'rotten, corrupted and subject to acute problems such as clientelism'. These countries still needed the 'social revolutions that occurred elsewhere in the world in earlier centuries to transform governmental apparatuses into effective nation states'. The overall impression of the debate on the state was that its alleged 'decline' had been overly exaggerated with the reality being far less dramatic than that predicted by Castells.

Globalisation is not a great epoch-changing rupture from one social system to another. There is a far higher degree of continuity from one social structure (industrialism) to the other (informationalism) than is usually accounted for in the literature.

The state is still a pivotal institution in the life of national economies, although its interventionist role in the economy has shifted in the advanced economies. It has shifted from being:

- A bureaucratic Keynesian welfare state heavily involved in production and state enterprise; to a state that is
- Less bureaucratic, less involved in production, more efficient, incentivising and wise; a state that focuses on building key infrastructural capacity such as ICT and high-level human capital formation; a state that has the capacity to facilitate and function within information networks.

CASTELL'S CRITIQUE OF GLOBALISATION

The unsustainability of the new economy

Throughout most of his inputs, Castells provided a critique of globalisation by suggesting that it was shaped by fundamental contradictions and was unsustainable in the long term.

The central characteristic of the network society was fundamentally contradictory - it was simultaneously creative (in terms of ongoing innovation) and destructive (in terms of its exclusionary effects). Elaborating further, Castells argued that the network society was riddled with other in-built contradictions, the most explosive being the volatility of financial markets and the problems of over-production (increases in world-wide productivity are faster than those of world-wide consumption).

He predicted that a combination of a downturn in both the business cycle and financial markets could lead to an economic plunge not seen since the Wall Street crash of the 1930s. A more contemporary crash would be exaggerated by the fact that many US and European households have large slices of their family income invested in stock markets. A severe plunge would be devastating across all social classes.

Two trajectories** for globalisation's future development were sketched by Castells, one based on trickle-down theory in which the time frame for growth would be at least 20 years before benefits began to accrue to the under-classes. Such a time frame was too slow and would be socially explosive.

The other trajectory was one characterised by survival economies, disconnected from the major flows of capital and trade, with people surviving on a minimal subsistence mode. Castells argued that it would be 'naïve of global capital to assume that it can exclude two-thirds of humankind indefinitely'.

Rising political alienation

Castells and Carnoy warn that the decline in the influence of the nation state over the most marginalised segments in society - those who have difficulty accessing knowledge and who have the least formal education - pushes these dispossessed segments to 'seek refuge in new and more exclusive collectives.'

These collectives help develop self-knowledge and self-confidence. They can provide community and therefore a sense of belonging. These new identities -whether religious or ethnic, regional or local - are 'antidotes to the complexity and harshness of the global market as the judge of a persons worth' (Carnoy and Castells, 1999: 20).

The plurality of emergent identities poses a major challenge to the traditionally unifying role of the nation state. These new identities exist in sharp contrast to the sharing of cultural codes that the modern state was able to build upon. Castells argues that if these codes are not shared within society, society will begin to degenerate into isolated communities. The challenge of the new state is to build bridges between these cultural codes in a highly plural world. Carnoy warned that in the absence of these ties, society would be highly unstable especially during severe economic downturns.

The '**new politics**' thesis was received with scepticism during the Gauteng seminar. The majority of participants were doubtful of the extent to which the South African citizenry had pluralised into this myriad of multiple identities.

It was suggested repeatedly by participants that the democratic state, the trade union movement and nuclear family structure in South Africa had not yet outlived their unifying social purposes.

Participants were also sceptical about the absence of any critique in the works of Castells and Carnoy of this new identity politics. Was this a pre-given process of social transition that was unstoppable?

Castells was initially reluctant to talk about the political implications of globalisation (this was a task he felt South Africans needed to do), but under the persistent pressure of his audiences, he eventually relented. The next section outlines the five key components of his vision for a new oppositional politics.

New social movements

Carnoy and Castells both argue that the new social movements and initiatives that are emerging in response to the global are forming around 'the local' - a de-centering of power to regions, localities, NGOs and so forth. It entails a shift from representation through the nation state to representation across a diversity of localised constituencies and institutional forms - be they the revitalisation of devolved power in regional governments and municipalities, or through the increased activities of NGOs, some of which provide services previously offered by the nation state.

Citizens now identify with these new institutions - shifting power, responsibility and legitimacy away from the central state. 'Legitimacy through decentralisation and citizen participation in NGOs seems to be the new frontier of the state in the twenty-first century'. (Carnoy and Castells, 1999: 31)

Transformed international institutions

The second key change in the political character of global society is occurring through the rethinking and restructuring of the role of the world's key international institutions - the UN, the World Bank, the IMF, and the WTO. All of these bodies - in differing degrees - are recognising a number of changed elements in the character of international relations. Castells cited regularly from the findings of a recent UN millennium report released by its Secretary-General, Kofi Annan, which concluded that:-

Globalisation presents an unsustainable model of development: 'For many people, globalisation has come to mean greater vulnerability to unfamiliar and unpredictable forces that can bring economic instability and social dislocation, sometimes at lightening speed.... Even in the most powerful countries, people wonder who is in charge, worry for their jobs and fear their voices are drowned out in globalisation's sweep'. (Annan, UN, 2000: 10).

There is now a recognition that a broad global compact is needed: 'Rich countries must further open their markets to poor countries' products, must provide deeper and faster debt relief, and must give more and better focused development assistance'. (Annan, UN, 2000: 3).

Existing international institutions must change their modus operandi: 'we must adapt international institutions, through which states govern together, to the realities of the new era. We must form coalitions for change, often with partners well beyond the precincts of officialdom... These [reformed] institutions must serve as an arena for states to co-operate with non-state actors, including global companies. In many cases they need to be complemented by less formal policy networks, which can respond quickly to the changing global agenda....To survive and thrive, a global economy must have a more solid foundation in shared values and institutional practices -it must advance broader, and more inclusive, social purposes' (Annan, UN, 2000: 2,7,9).

The most dramatic changes will have to come with the Bretton Woods institutions: 'Our post-war institutions were built for an inter-national world, but we now live in a global world'.... {The} post-war institutional arrangements were premised on a world made up of separate national economies, engaged in external transactions, conducted at arms length. Globalisation contradicts each of these expectations'.

The calls for a new financial architecture, which attempts to regulate global financial markets and reduce third world debt, are now insistent across the globe - from Seattle, USA to Okinawa, Japan, to Prague, Czech Republic.



Multilateral action: Castells argues that governments are increasingly agreeing to join together in shared programmes of global development. Third world countries need to form regional economic blocs with open borders so as to unleash maximum economic co-operation.

The UN is calling for a broad global compact, which would see co-operation between governments, corporations, non-profit foundations and NGOs around key development issues, particularly ICT and human capital formation in the developing countries.

Joel Netshitenzhe of the GCIS is optimistic about the possibilities thrown up by this new global political environment:

'One reflection of this tendency towards improving global governance [is something] that Africa can take advantage of. And there's of course also a developing willingness on the part of countries of the South and Africa in particular, to pool sovereignty without which it wouldn't be possible for us to assert ourselves in this world. All these, I believe, augur well for a new world agenda, for globalisation in the interests of the excluded. The question, as I've said, is whether we are prepared and able to seize the moment through our own behaviour and the manner in which we engage with the developed world.'

A 'TECHNOLOGICAL MARSHALL PLAN'

One of Castell's strongest political recommendations was his call for a 'Technological Marshall Plan' - a programme of First World intervention in Third World 'info-development' on the same gigantic scale as that which occurred during the original Marshall Plan aimed at the post-war reconstruction of West Germany.

Castell's main rationale for this Plan is the need to implement a strategy of development aimed at modernising third world Information and Communications Technology (ICT) infrastructure and human capital formation on the basis of massive Western governmental, multi-national and NGO aid. In addition to building ICT infrastructure, this intervention would also trigger a classical Keynesian stimulus of demand and lead to associated forms of industrial and economic development.

Much of these ideas were presented as a Keynote address at the Economic and Social Council of the United Nations, New York, delivered by Castells on 12th May, 2000. In this speech Castells defends such a gigantic action on the basis of a model for growth, which he calls 'info-development':

"What could be the potential outcome of an informational development strategy? The most important outcome would be the diffusion of knowledge and technological capacity throughout economy and society, so that people in all societies decide what to do with it, using their entrepreneurial skills to create new markets and compete in these markets.

Or else, to use their informational capacity to build alternative social models based on different sets of values. Informational capacity is not limited by any means to high technology industries and services.

It could be used in sustainable agricultural development. An info-development model is based, in developing countries as everywhere, on on-line work, on-line service delivery, on-line learning, all linked to local economies and local communities. Nodes and networks which grow and incorporate people.

Poverty will still be there for a long time, but there will be hope from the poor segments of the population to link up to the dynamic segments of the country and of the world....

Today's reality is one of networks of high skilled workers and entrepreneurs, moving back and forth between different nodes of production and innovation. Many people who come to Silicon Valley from Bangalore go back to Bangalore, and to India, set up companies, and live between California and India.

The same process is happening between the United States and Taiwan, Singapore, Israel, Mexico, China, and lately, Russia. The key here is to expand the networks and increase the size and quality of the nodes throughout the developing world, bringing in more talent from the whole planet to these networks, so that ultimately innovation works back and forth regardless of country boundaries". (Castells, 2000: 10-12)

This is a theory of economic 'leapfrogging' - a strategy whereby developing nations can use the new information technologies to leap beyond the difficult steps and constraints of traditional models of industrial development, particularly the requirements of economies of scale and low-cost mass production.

The new technologies are more adaptable and can be more pervasive in a developing context. The only problem is breaking through the vicious cycle of deprivation where developing nations remain excluded because they do not have the minimum threshold of IT infrastructure and human capital to kick-start this strategy.

This is where Castell's big bang theory comes in:

... the main problem to tackle in the implementation of global info-development is how to inject resources in the first place in areas with no hope of yielding returns in the short term.

There is a need for a Big Bang, a massive, sudden investment in technology and human resources, on a scale large enough, and in various areas of the world, to prime pump the process of informational development.

These resources can only come from where they are, from the rich countries, from the largest corporations, from the centres of innovation and learning, and from the international organisations funded and supported by the wealthiest countries in the world. (Castells, 2000: 10)

CONCLUSION

Some of the strategies that Castells recommends are already occupying the world political stage. For example, the world-wide protests against the Bretton Woods institutions is gaining momentum by the day. In addition, the G7 countries, at their recent retreat in Okinawa, Japan, initiated a high-powered Task Team on IT to investigate ways in which to speed up the technological development and inclusion of the Third World within the information society.

And lastly, the UN has begun pursuing the strategy of forming a broad global compact as part of its new millennium political strategy.

These new developments will have to be closely monitored in the near future to see whether they constitute a truly new global politics and whether they empower the Third World in its struggle against globalisation's destructive might.

* **innovate**: to create something new

** **trajectories**: routes, paths

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Footnotes

1: Manuel Castells was brought to South Africa under the auspices of the Centre for Higher Education Transformation (CHET), which is based in Pretoria

LET US TAKE STOCK

Kgaogelo Lekgoro

The Mafikeng Conference resolution on strengthening branches reiterated our belief that 'ANC branches are important structures of mass mobilisation and the building blocks of our organisation.' The base of a strong mass organisation must rest on solid branches. If our branches are weak, our capacity to remain a mass organisation will wither away.

This mass pillar must be mobilised to ensure people's participation in our endeavours to build good governance, people centred development, a growing economy and other requirements that are at the core of our prosperity and survival as a nation. Weak and non-functional branches lead to a weak organisation and to failure in a site of struggle that historically have been part of the strength and the unique characteristics of the ANC.

The state of our branches

The bedrock of ANC support - and of people who in one way or another served the broad progressive movement - is found in African townships and rural villages.

However, despite these deep roots and the high levels of electoral support for the ANC in these communities, this does not necessarily translate into organised strength. Most of our branch structures in these areas are weaker than they should be.

Reasons for this include poor communication with our members and the broader community. Mass work such as door-to-door, community campaigns, house and street meetings, loud hailing, blitzes at public places etc. are things we now only engage in during election campaigns.

It is true that - outside of provincial and national elections campaigns - we may not reach the same levels of political and social mobilisation. However, to only have mass work and mass campaigns during elections leaves an undesired lull and impact on the depth and participatory nature of the democracy we are striving for.

We must insist that it should be a core responsibility of the BEC and the rest of our branch members to identify local issues, plan how to mobilise communities around these issues so that they play an active part in development and communicate the issues to the community (using traditional methods of mass work).



This must be a regular and consistent element of a branch's programme, so that the community should know where to go with their problems and more or less when to expect the ANC either on air or in their homes.

We must also examine our branches in informal settlements. These are new areas, which were established in the last fifteen years or so as a result of urbanisation and the struggle against homelessness and landlessness. Most of these areas therefore do not have the same tradition of organisation or the community cohesiveness of other more established areas.

In many cases, ANC branches in these areas were formed and their leadership elected by residents to address day to day community issues such as the allocation of housing or land, the provision of basic services and resistance to removal. This leadership did not necessarily develop under the same conditions as the structures in more traditional support bases did, with links to the political underground of the movement.

These factors and the fact that many of these branches can muster huge delegations to conferences has seen a tendency among some of our leadership to use structures from these areas as "voting fodder" and the branches merely as spheres of influence.

The objective of the movement is the transformation of these informal areas into stable, well-developed communities in which residents enjoy a better life. Our branches in these areas should be developed and assisted to be able to give leadership to popular struggles of such communities.

We also have a presence in the form of a branch - often with branch offices - in most Indian and Coloured areas. If the 1999 national and provincial elections are anything to go by, our support has risen in these areas. However, here too membership figures are generally low and we are unable to transform this support into membership.

Work in the traditional white areas has always aroused heated debates about tactics. On the one hand, we agree at a strategic level with the as a task set out in our [Strategy and Tactics](#) (1997);

"The ANC is also called upon to win over to its side those who previously benefited from the system of apartheid: to persuade them to appreciate that their long-term security and comfort are closely tied up with the security and comfort of society as a whole"

We understand that this mean having to change attitudes and fears that have been created over a long period of time. However, we are still grappling with the tactical questions of branch organisation in these areas, such as: Who do we target in these areas?

Generally it is all citizens of the age of eighteen and above. But, in particular, it has to be white residents whose attitudes and fears we have to turn in favour of the ANC.

However, we find that ANC branches in these areas tend to have membership, which is more than 99% black. It begs the question whether we are indeed meeting our organisational target? Are we able to penetrate and influence the rest of the white community? Are we able to change their perceptions towards the ANC? Clearly the performance indicators we set for our branches in these areas must differ from those of a branch located in a traditional base of the ANC.

A significant number of influential ANC leaders and members have taken up residence in these areas. One would have expected that branches in these areas to be enriched by the wealth of experience and political skill, which these cadres possess. However, their participation at branch level has been poor to non-existent.

Having argued the above, we must be mindful that the demographics of some traditionally white areas, mainly the inner cities, has shifted (or is in the process of shifting) fundamentally with black people constituting a majority, if not a significant minority.



Quantity and Quality

There is a growing tendency to confuse our state of organisation with the state of membership figures. Numbers are important, but we need to take a more comprehensive view of organisation, which include sustainability and growth on the one hand, and influence and impact on the other hand.

Sustainability refers to the ability of an organisation to continually replicate its membership, leadership, organisational culture and structures - even under adverse conditions. Influence refers to the ability of the organisation to make its voice heard and respected in the community -to give political and moral leadership to the community.

Membership is therefore an important, though not the only indicator of the state of organisation. It must be located within the context of achieving our broader political objectives.

No voluntary organisation has ever enrolled every member in society, because not all members of a particular target group share the same perspective and objectives. However, this is not an excuse to not mobilise and enrol large numbers of people. We need to recruit impressive numbers to demonstrate levels of strength that correspond to the levels of political power we need to achieve.

We must therefore engage in recruitment in a systematic and scientific way. To leave the branch organiser or secretary with recruiter packs and hope that more people will join is wishful thinking. The BEC must involve active members in organised recruitment drives. We must divide the community into sections, the sections into smaller areas, smaller areas into streets, and then assign a member to a street for a particular time. This must be followed with report backs, evaluation and further work in that organised fashion.

The ANC constitution requires a minimum of 100 members to form a branch. While there are areas where branches have far exceeded this requirement, there are others where branches seem content with this minimum requirement.

There is also a general tendency to focus on recruitment only when the branch AGM, regional or provincial conferences are due, to be followed by a lull until the next conference.

Branches with consistently high membership, experience a different problem, where very few of these members are engaged in the every day life of the organisation. These are members who have no relationship with the organisation other than having been issued with a membership card.

Our constitution requires of members to participate in the political life of the movement, of our structures to equipped them with the policies and traditions of the organisation and serve the organisation on an active basis. However, very few of our branches manage this effectively.

The process of transforming supporters into members, members into activists, and activists into cadres is an important part of reproducing the organisational culture of the movement. This process can only occur in the context of a programme of action, which seeks to involve members in issues in their communities, in political discussions, in helping to shape the political direction and in implementing our programmes of transforming our communities and our society.

This is the tried and tested method to develop and transform individuals into agents for change who are trusted by the communities they serve.

Deepening organisation and building partnerships

Our BEC's are often seen as the sole political custodian of the organisation. Members of the BEC undertake all political work and responsibility, instead of playing a leadership and facilitating role, providing avenues for members and activists to participate in branch and ANC work generally.



As a result, members and activists often feel alienated from the organisation and its work, the BEC is overstretched and AGM's become fiercely contested because participation on the BEC (or REC's) is seen as the only route to make a contribution.

Organisation must be deepened through mechanisms that ensure the active participation of all activists in the life of the branch. The formation of units such as political education, organising, safety and security, education is one such mechanism. However, for this to succeed, these units must be composed of activists and not only one or two members of the BEC.

Also, units should not operate in isolation. The BEC must from time to time bring together all activists participating in units (and other areas) into a common forum to discuss the policies of the organisation and the branch's programme of action.

We must broaden organisation through regular and systematic interaction with key community organisations, sectors and influential figures in the community to ensure that the organisation's influence is felt. The co-operation and support of these organisations and individuals must be won and where possible their members must be recruited into the branch. The BEC, units, activists fora, MP's, MPL's in their constituency work and councillors in their governance and development programmes should all see the building of partnerships as an important part of their work. Our cadres

Before 1990 we had an activist who had to be prepared to work under conditions that threatened life and limb. Without exaggeration this was a crop of activists who had nothing to gain personally, but were driven by the desire to see the achievement of national liberation and democracy.

The unbanning of the movement made it possible for many more people to join the ANC, and tens of thousands of people who before had no direct access to the ANC underground structures, or who were part of the mass formations of the 80's or some who before 1990 were fearful of the repression being associated with political involvement signed up for membership of the ANC.

Although lots of emphasis was laid on mass political training during the early 90's, the movement simply did not have the capacity, nor did the same conditions exist to turn the large number of new members into activists and cadres of the movement. Apart from the capacity problem, we were also engaged in the very difficult process of negotiations and our political education tended to focus on educating our members and building cohesiveness around issues such as the need for the suspension of armed action or the sunset clauses.

In the decade since 1990, our members and cadres had to adapt and learned skills necessary for the new conditions - running election campaigns, governance, parliamentary work, etc. The democratic breakthrough of 1994 required the organisation to deploy cadres on a scale unprecedented in its history.

The need to deploy cadres to national, provincial and local spheres of government, the civil service, business etc. meant that experienced cadres from all levels of the organisation had to be re-deployed. While this affected the organisation as a whole, it was at branch, regional and provincial level that the impact was felt most severely.

For a number of reasons, a significant number of these deployees ceased to be actively involved in any form of branch or sectoral activity. In some instances cadres were deployed outside the country, others were deployed into positions where the demands of time and travel make active involvement all but impossible. In certain other cases the organisation has deployed cadres into positions that require of the incumbent to relinquish positions, active involvement and in some cases even membership of a political organisation.

These reasons for non-involvement are understandable. However, the organisation must provide guidance to these cadres on how they can continue making a contribution in other ways.

Special guidance must also be given to cadres deployed in sensitive areas. The following questions need to be answered: Is it wrong for an officer in the army or police to be involved in party political



activity in their private capacity and time? Does the same apply to an ordinary member of the defence force or police service?

However, the bulk of those who are unjustifiably no longer active are found in the civil service. Many adopt the attitude that "I am a civil servant I am neutral". Others settle in the suburbs and are content to lead quiet lives. Most of these comrades are valued and experienced members of the organisation who should understand the organisation's discipline. The organisation should compile a database of these and other comrades, understand what causes their non-participation at branch level and draw them back.

Building branch capacity

The responsibility to ensure strong branches is a revolutionary responsibility that needs all our contribution. Given the poor state of our branches, our leadership collectives (REC, PEC and NEC) need to take special efforts to reinforce the capacity of branches.

We have a national programme of action with mass campaigns, but often our branch leadership are unable to implement this programme.

It therefore becomes important that our upper level leadership not only goes to branch AGM to officiate and never return to follow up programmes. Leadership should be there to assist and support, until we are sure that the branch leadership can well manage the situation.

ZIMBABWE: ANATOMY OF A CRISIS

*[In this article, a contributor, **DENGA**, shares his thoughts on the challenges facing the Left in Zimbabwe. The views expressed in the article are personal and do not necessarily coincide with those of the ANC.]*

The African state in a changing environment

The crisis in Zimbabwe has lent itself to all kinds of interpretations. If media analyses were to be the only source of knowledge, the choice is simple: either you are on the side of ZANU-PF and dictatorship, or that of the Movement for Democratic Change and democracy.

Dramatic interpretations of events and the dominance of a recidivist* ideological agenda have thrown overboard all rational discourse. In the midst of all this, the aspirations of the Zimbabwean working people have been relegated to monumental irrelevance.

The experience in Zimbabwe is not much different from the challenges facing fledgling African states in the context of a changing continent and a globalising world. What are the elements of this change?

Firstly, the liberation of Namibia and South Africa has brought into sharp relief the importance of internal factors, such as the exercise of democracy and the popular will, in defining the legitimacy of the state.

Secondly, the uni-polar world has seen the assertion of a dominant global ideology of trickle-down prosperity, which is meant to accrue from liberal market-driven policies.

Thirdly, with the revolution in Information and Communications Technology (ICT), a vile practice of "dumbing" has emerged: where debate of social issues is reduced to the sound-bite of electronic and even print journalism.



Lastly, democracy, transparency and good governance have become the political platform of most social forces, including civil society. But attached to this is an attempt by some industrialised countries to utilise their ideological and economic power to enforce narrow political choices.

Genesis of a problem

The socio-economic factors underpinning the Zimbabwean crisis are land, unemployment and poverty, inflation, profligacy** in government spending and bad governance. These and other ills all have their history, which cannot be satisfactorily dealt with here in the detail. However certain trends have manifested themselves over the past two decades.

Historically, the struggle in Zimbabwe has been centred on the land question. This is a reflection of its relatively short history of colonialism, the level of industrialisation and the demographics of the country.

While the liberation movement had its genesis in the urban areas, with strong working class links, the struggle gravitated towards the rural areas during the armed guerrilla war. The urban areas did identify with the cause of liberation, but there was minimal mass organisation and activity. The trade union movement owes much of its growth and mobilisation to the post-independence era.

The victory of the liberation movement in 1980 had to be tempered by the reality of the balance of forces - within and around Zimbabwe - which dictated not only the Lancaster House compromises; but also the tone and content of the leadership that President Robert Mugabe's government had to give during the transition.

Character of compromise

At the one level, there was need to allay the fears of a white community whose skills and resources were needed for stable economic development; and whose passive loyalty was critical to prevent massive destabilisation from the neighboring Apartheid regime.

At the other level, this compromise was in essence a class compromise: the sanctity of private property, the reserved seats and veto powers for whites, the deferred right to intervene on the land question, to quote but a few examples.

These compromises also narrowed the space to grow a black national patriotic bourgeoisie. The positions that could guarantee the emergence and flourishing of this class were therefore to evolve within the state and parastatal institutions. And as history has shown elsewhere, this was a sure recipe for corruption - for positions in and around government to become the breeding ground for a bureaucratic bourgeoisie.

The array of classes and strata critical for social transformation could therefore be defined as follows: a working class with weak traditions of struggle; a black middle class reliant on positions in government; a rural base steeled in the vagaries of guerrilla struggle but without mass organisation; an emergent national bourgeoisie whose honey-pot was the state; and an intellectual force supportive of the national project but essentially passive, perched in the ivory tower of arm-chair criticism, or too beholden to the state to become the conscience of revolutionary transformation.

For the settler bourgeoisie, reconciliation and compromise meant taking too literally the call to forgive and forget. They harboured the belief that the privileges accumulated in the years of colonialism would go untouched. Liberation and reconciliation to them meant "allowing" blacks to run the country at the super-structural level, as long as they did not tamper with civilisation in the form of white private property, culture, and even interpretations of democracy.

Challenges of socio-economic transformation

Despite these weaknesses, the new democratic government set out to transform socio-economic relations.

The two decades of liberation have witnessed an educational and cultural revolution that the country has never experienced in its history. School enrolment increased dramatically; young black artisans and intellectuals are a common feature of Zimbabwe and many are dispersed on the sub-continent and further a field.

In the area of health, infant mortality was reduced from about 140 per thousand in 1980 to 61 per thousand in 1991. (Prof. Chachage Chachage in *New Agenda*, Issue 1, 2000, p53)

Conditions were created for the flourishing of small-scale farmers, and despite the constraints in land redistribution, small-holding peasants produce 70% of food in the country. (Ibid, p2)

In the period leading up to the last quarter of the 1980s, there were economic difficulties, but growth was real and there was a sense of an expanding economy.

Among the propertied classes, liberation meant an expansion of opportunities to produce in conditions of stability, to tap into new markets both in the region and beyond. The middle strata, including the section attached to, and reliant on, the state could also boast of new opportunities. New contradictions emerge

But as with all social movement, contained in these processes were new contradictions.

The progress that was made in socio-economic programmes depended on decisive intervention by the state. This meant an outlay of large amounts of resources from the fiscus to improve education, health and so on. There was also the demand placed on the fiscus by the security situation in the region, deriving from Zimbabwe's principled support for the liberation movement in South Africa and Namibia.

This naturally put a strain on macro-economic balances. Economic difficulties in the second half of the 1980s undermined the sources of funding for the socio-economic and security programmes. This meant an increasing gap between resources available and expenditure.

Under these conditions, the success of the educational programme itself had its ironic consequences. Educated, trained and ready to earn a living, more and more young Zimbabweans found themselves unable to find employment. This would naturally spawn a section of the population objectively better off for having acquired a right, but subjectively discontented with a system unable to provide concomitant*** opportunities.

At the same time as the power of the new middle strata within the state strengthened, so did its distance from the social base of the liberation movement increase. And in equal measure, the reliance of the rest of the colonial middle and upper classes on favours from the state made an alliance between these forces unavoidable: a love-hate relationship we reflect on later.

Structural Adjustment Programme

The economic problems that emerged in the second half of the 1980s were also a result of factors beyond Zimbabwe's control. For an economy largely reliant on agricultural production and extractive industries, the fall in prices of minerals in international markets, intermittent drought and other factors conspired to undermine growth. This impacted on the export sector and thus the availability of foreign currency for the importation of critical capital and intermediate goods.

The stage was set, at the close of the first decade of independence, for the imposition, by the International Monetary Fund and the World Bank, of a Structural Adjustment Programme (SAP).



Much has been written about SAP, with arguments that its strict application would occasion sacrifices at the beginning, but with the certainty of delivering better conditions of life in the medium-term. Examples of such successes anywhere in the world are hard to come by.

But even if this were theoretically possible, the question that has faced many countries under IMF and WB prescriptions is whether an ailing body politic would be able to sustain itself under the combination of side effects of the bitter medicine.

A steep reduction in the budget deficit and particularly in social spending, pursuit of low inflation targets, liberalisation of internal and external markets, and other such programmes - carried out at the behest of, and according to a pace dictated to by, powerful external forces - are bound to cause social discontent.

The immediate destabilising impact of such programmes, the shifting goal-posts and the punitive measures once a state subscribes, make an attempt to jump off an even greater evil.

The ebbs and flows of class alignment

These difficulties naturally meant the worsening of conditions of the poor. Reduction in social spending on such essential programmes as health, life-saving subsidised prices of staple foods, a high import bill massively aggravated by the devaluation of the currency and galloping inflation started to chisel at the benefits that had come with liberation.

Yet, the conditions of sections of the upper classes, expressed in starker form by the conspicuous consumption of the nouveau riche, seemed to improve in the same measure as that of the ordinary people worsened.

Naturally, this strengthened the sense of abandonment that the mass of the people experienced. It set the stage for mobilisation and militancy among the urban poor, particularly the working class.

Did the liberation movement detect this trend and seek to unite the motive forces of change? Did it honestly lay before the people the totality of the problems the country was facing and seek their support for any corrective measures?

It could be argued that the overwhelming victory that ZANU-PF won in the two general elections prior to 2000, demonstrate that there was synergy in thinking among the forces of change. But the low turnout in these elections, reflecting a growing cynicism among core supporters of change, cannot be ignored.

The liberation movement seems to have adopted a narrow approach, which promised to deliver instant results - especially in the context of elections.

Firstly, fully understanding the centrality of the land question to the independence struggle, it put at the top of the agenda a fast-paced land reform programme meant to benefit the rural poor. Yet what seems to have been lacking is persistence, demonstrable mass benefit, and tactical approaches that would keep the former colonial power and other donors engaged. Justifiable or otherwise, an impression was therefore created that land reform was carried out or propagated in bits and spurts, particularly around election periods.

Secondly, the liberation movement sought to allay the fears of the black middle and upper classes - with whom it was in constant touch - through campaigns that appealed to their narrow sectional interests. The land issue was at the same time a rallying cry of the poor, as it was an opportunity for the aspirant bourgeoisie to lay claim to opportunities denied by colonialism and the compromises of the Lancaster House Agreement. This helped build an alliance of forces among the black upper classes, the veterans of the liberation struggle who had not benefited materially from the attainment of political control and the rural poor in communal settlements.

But scant attention was paid to urban discontent. Combined with this, the mobilisation of black upper classes on a ticket of repossession (the love-hate relationship with their white counterparts) precipitated⁺ a chain of events that brought the white middle and upper classes and the black urban working people closer together.

Crisis of governance

The confluence⁺⁺ of these crisis factors in the Zimbabwe of the mid-1990s was characterised by the emergent mass opposition forces as a crisis of governance. This characterisation is accurate.

For Zimbabwe was and still is experiencing a crisis of balancing between the genuine aspirations of the poor and meagre state resources. It is also a crisis reflected in the behaviour of self-satisfied sections of the middle strata who, by hook or by crook, seek to extract maximum benefit from positions in government.

It is a crisis of social distance between leaders of a historically transformative movement and the forces it is meant to lead.

It is also a crisis of an obsession that comes with such social distance: to persist in wasteful expenditure, such as continued commitment of a large military force in the DRC, despite the serious consequences of such action. But, critically too, it is a crisis that comes with globalisation and a unipolar world: the dominance of those who control global resources, whose starting point in relations with the African state is not the conditions of the poor, but how they can shape this state after their own economic, ideological and political image.

Under these circumstances, true transformers would think long and hard before making political choices that have far-reaching implications. This is the essence of the weakness of the Movement for Democratic Change (MDC). Its approach reflects an abject failure to identify the roots of the crisis and find a solution that would take Zimbabwe forward.

Personalisation of the problem in one individual or a small group, and an impatience born of inexperience in revolutionary struggle, has played into the hands of the recidivists: the Rhodes both within Zimbabwe and in influential positions in South Africa and Britain.

Working with them, is an emergent force of Non-governmental Organisations, funded from abroad. These wallow in the idealism of a mechanical liberalism that sees in President Mugabe and ZANU-PF an anathema to democracy - defined by them as a precarious balance between two or three powerful parties which intermittently displace one another from political office during elections. Thus, in the MDC, irrational ambition and calculated reaction have found common cause.

Conclusion

At the risk of over-simplification, one can therefore characterise the alignment of forces in Zimbabwe thus:

On the one hand, a significant section of the liberation movement in political office has defined itself as "tactical reaction": devising and implementing policies that create fertile ground for division, for the worsening of economic and social conditions, and for extracting as much material benefit as possible from its vantage point within the state.

On the other hand, an amalgamation of classes and strata, almost exclusively white and with external connections, feel profoundly threatened by any further social transformation, which would shake at its very foundation the legacy of colonial relations. These forces hanker for the past: they can therefore be characterised as "strategic reaction".

Faced with these two contending forces, where should genuine transformers locate themselves? This is the fundamental question that faces revolutionary democrats in Zimbabwe. Many of them are to be



found in ZANU-PF, and a significant section, particularly of the intelligentsia and worker-leaders, has chosen to align itself with "strategic reaction" burrowing in the MDC.

It is on these revolutionary democrats that a future of genuine transformation in Zimbabwe depends. Their concern for the aspirations of the mass of the people who fought for, and desire, fundamental change, should be the driving force in the search for solutions.

The co-option of this transformative agenda under the umbrella of either "tactical" or "strategic reaction" is in fact the real crisis facing Zimbabwe.

* **recidivist**: return to previous undesirable patterns of behavior

** **profligacy**: wastefulness

*** **concomitant**: related or associated

+ **precipitated**: hastened, brought to a head

** **confluence**: coming together

ARE LIBERATION MOVEMENTS BOUND TO BECOME BUREAUCRATIC AND STAGNANT AFTER INDEPENDENCE?

Jeremy Cronin

At our National General Council in July, the Secretary General's report, and the input of the President raised many critical and honest questions about the state of our movement. Problems of careerism, factionalism, and of a growing social distance between leadership and our social base were among the problems noted. These inputs were welcomed by the NGC delegates and, in the course of commissions, practical measures were discussed to overcome the problems.

Many of the intra-organisational challenges that we face are clearly related to the fact that the ANC is now in power. It is important to realise that we are not unique in confronting these kinds of challenges. Progressive political formations often battle to sustain their revolutionary trajectory once they are in power. From India, through Mexico and Central America, to Algeria, Guinea Bissau and southern Africa it is possible to think of once heroic national liberation movements losing their way after independence. But it is not just liberation movements that confront the challenges of power.

The social democratic parties of Western Europe, many with the experience of years in government, have also often been accused of becoming bureaucratic or narrowly electoralist, departing considerably from their earlier social movement traditions. In many of the developed capitalist societies influenced strongly by social democracy, while there are still relatively significant levels of local level and single-issue social activism, these forms of activism are often alienated from the formal national political party system. There are serious problems of voter apathy and abstentionism in many of these countries. This applies even more forcefully to a society like the US.

Then there is the former Soviet bloc in Eastern Europe and the former Soviet Union. Many analysts attribute the collapse of this bloc in large measure to the stagnation and authoritarian bureaucratisation that set in amongst the ruling parties in that region.

The ANC is, in short, not the first progressive political formation to have to confront the challenges, temptations and dangers of being in power. In this brief paper we wish to connect our own intra-ANC discussion with a long tradition of analysing and debating the causes of organisational stagnation and decay within progressive and working class parties and movements around the world.

"Power always corrupts"?

One attempt to explain the bureaucratic degeneration of progressive parties is to argue that it is an "inevitable" outcome of any institutionalised, political organisation. In the course of the 19th century, this viewpoint was taken up by a strong anarchist tradition - Bakunin, for instance, articulated these views and opposed Marx and Engels from within the First International. Variants of the anarchist



tradition can be seen in some of the social movement, "anti-politics politics" of Western Europe, North American and Eastern Europe in the post-1968 period. This tradition often advocates mass action in opposition to all hierarchical and institutionalised power.

Anyone familiar with the South African situation will recognise tendencies of this kind. Mass action is seen, in some quarters, as inherently oppositionist, and by definition progressive. There is a deep suspicion of political power, and the words "sell-out" are bandied about with great relish. Ironically, but factually, these oppositionist views can sometimes end up close to laissez-faire liberalism - where political power is seen as a negative impediment to individual rights.

Clearly, we should not be renouncing power (something that big capital in our country may very well wish we would). The challenge is to use and transform power, without being corrupted oneself.

The "iron law" of oligarchy?

A different tradition that argues from the same premise (that authoritarian degeneration is inevitable) ends up with a more cynical approach to politics. Based on a study of European social democratic parties at the beginning of the 20th century, Robert Michels, for instance, argued that there was an "iron law" of oligarchy affecting all political parties. With the growth of a full-time administrative machinery and confronted with complex technical tasks, so the argument goes, it is inevitable that a technocratic elite will come to dominate the party machine. From this viewpoint it is a short step to an argument that the existence of a managerialist elite is a sign of the "maturity" and "modernity" of a political party.

Again, it is possible to recognise contemporary South African variants of this line of thinking - where being "tough" on mass formations, where non-consultative policy processes, and techno-talk are all worn like badges of "international best practice". This kind of elitism starts to be seen as a sign that we have "got real", "grown up", we are no longer in our "struggle infancy".

Both the anarchist/social movement and Michel variants are not wrong to note the powerful tendencies that foster elite bureaucratic practices in institutionalised parties, particularly when they are in power. However, both are extremely one-sided in their approaches, and, above all, both are wrong to accept (hyper-critically in the one case, cynically in the other) the "inevitability" of bureaucratic elitism.

The question that we posed to ourselves at the NGC was not only whether there are such tendencies, but what we can do to reverse them.

The erosion or marginalisation of motive forces

It is obvious that one of the underlying causes of bureaucratic stagnation relates to the very real managerial and technical challenges facing any modern party. These challenges are compounded when such a party is in power. However, an effective understanding of the danger needs to analyse, also, the social base of the political party or movement. Where the dynamic interaction between the mass base and the political party is disrupted or breaks down, then bureaucratic tendencies within the political party are likely to be accelerated and exaggerated.

Many analysts, for instance, have argued that one important factor contributing to the "Stalinisation" of the Bolshevik party in the Soviet Union was the near physical elimination of the experienced revolutionary working class cadre after the 1917 revolution. The proletarian activists, who had built the Bolshevik party in the years before 1917, were drawn from a working class that was proportionately very small in Russian society. It was a society numerically dominated by the peasantry. However, the Russian working class was concentrated in the key cities of the Tsarist empire, and it had strong revolutionary struggle traditions and experience. It was a cadre drawn from this working class that led the revolutionary struggle, and then the struggle against the counter-revolution.



This working class cadre, drawn into the Red Army, was decimated, particularly in the course of the Civil War. From the mid-1920s, the new cadre of the Communist Party of the Soviet Union was a post-revolutionary cadre, drawn often from non-working class strata. It was a cadre that owed its positions in the party to the organisational apparatus, rather than to its own struggle experience and traditions. The organic links between the party and its working class social base were broken, and more and more the party came to substitute for the class it claimed to represent.

Progressive third-world national liberation movements often confront similar problems after independence. In a country like Zimbabwe, for instance, ZAPU and especially ZANU waged effective rural based guerrilla struggles. The major social base for these rural guerrilla struggles were marginalized peasants in the so-called Tribal Trust Lands (some 50% of the territory of "Rhodesia"). It was this peasantry that supplied recruits to the guerrilla army, and that fed and concealed it, especially in the remote Eastern Highlands, along the Mozambique border.

After independence, the leading cadre of the guerrilla army entered into positions in government and the new national security forces. But the rank-and-file fighters were often demobilised back to the remote countryside from which they came. The capacity of this relatively marginalized mass social base to impact upon the unfolding national political terrain was limited.

Apart from subjective errors that may or may not have been committed by the liberation movement's leaders after independence, this underlying social reality will also have increased the dangers of a deepening divide between the liberation movement and its mass base. These dangers will have been enhanced by the stalled land reform process, which further perpetuated the political, social and economic marginalisation of the key motive force of the Zimbabwean guerrilla struggle. As in the former Soviet Union, the dynamic link between the party and the key social base, that actually propelled the revolution, was disrupted.

The South African liberation struggle was, in terms of its mass social base, relatively unique amongst third world national liberation movements (NLMs). Perhaps the closest parallel, but it is still not an exact parallel, lies with the largely urban and refugee camp struggles of the Palestinian intifada. For socio-economic reasons, we were not able to sustain a rural-based guerrilla war on the scale of a Vietnam, nor of those in neighbouring Southern African countries - like Angola, Mozambique and Zimbabwe. In our case, the major motive force of struggle was the working class and the broader, but socially-linked, urban and rural poor. The South African working class is a force that is, inherently, less marginalized, and its potential to continue to act dynamically on the national political stage has remained a significant reality.

It is for this reason that the NGC re-affirmed the working class as the principal motive force in our country. However, in the past six years the South African working class has suffered between 300 to 500,000 job losses, and while an estimated 300,000 new jobs have been created, these are often in the informal and marginalized sectors of the economy. We need to understand that the struggle for job security and job creation is not only a struggle for social justice. Preserving and consolidating the social weight and independent capacity of the working class, and sustaining its organic links to the ANC, are important safeguards against tendencies towards social distance and organisational stagnation within our movement.

Social movements and political power

We have noted the tendency, especially in many developed countries, for social movement and local level activism to be increasingly alienated from mainstream, institutional party politics. In many developed countries there are high levels of voter apathy, especially among the youth. There are several reasons for all of this:

- The relative weakening of the blue collar, largely male, industrial trade union movement, which had originally been the core social base for most social democratic parties;
- The growing diversity of subjective identities in developed capitalist economies with strong consumerist cultures - individuals' tastes in food or music, or their voting behaviour is less likely than before to be relatively pre-determined by locality, profession, or culture;



- The narrow electoralist nature of many parties, and the growing convergence between parties of the "centre-left" and of the "centre-right", with little to choose between them;
- Related to this, the increasing role of electronic media, advertising techniques and image-making in the conduct of mainstream politics - reducing citizens to spectator-consumers.

For some, these developments are more or less inevitable, and they simply need to be embraced - Tony Blair's "Third Way" amounts to an advocacy of this. On the other hand, however, many progressive parties and political analysts are deeply concerned about these features, and seek, if not to escape them, then at least to counter-balance them with other dynamic realities.

In many countries there are now "red/green" alliances that seek to unite the old left and the new left, electoral politics and social movement activism. In France the ruling coalition is made up of the dominant Socialist Party, the Communists and the Green Party.

In South Africa, we built, especially during the last decades of the anti-apartheid struggle, a remarkably united but diverse movement under the broad umbrella of the ANC. This broad movement includes a radical third world national liberation movement with decades of struggle experience (the ANC); a communist party that emerges out of the Bolshevik legacy, but also with decades of indigenous South African experience (the SACP); and a robust, independent workers' movement - COSATU - the fastest growing trade union federation in the world, with 1,8 million workers.

But the broad ANC-led movement also embraces a range of social movement activist traditions - most emerging directly out of the anti-apartheid struggle (women, youth, progressive religious, media, anti-conscription, peace, civic, educational and other radical formations). This diversity is a source of great strength for the ANC. The challenge is to keep this diversity relatively unified behind a common strategic vision, while ensuring that the various components remain active and mobilised in their diversity.

These organisational realities, properly handled, are a great asset and an important antidote to the dangers of bureaucratisation and dislocation from our social base. Our ability to mobilise this range of forces in 1994 and again in the elections of 1999 was critical to our success. However, as we admitted in the NGC, apart from elections, we have not really succeeded in effectively mobilising our broad movement around a common programme of action since 1994.

This remains an important challenge, all the more so because we cannot take our broad but diverse unity for granted. The unity is threatened at times by one-sided notions of "oppositionism", and of "civil society" being simply a "watch-dog". Such views tend to be reinforced, on the other hand, by bureaucratic impatience with the necessary autonomy of trade unions and other social movements.

The huge transformational challenges confronting us in South Africa require the unity of diverse progressive and mass forces, in and out of government.

No "iron law"

There is nothing inevitable about our movement bureaucratising, notwithstanding the warning signals we have identified, and notwithstanding many international cases of organisational stagnation. At the NGC we committed ourselves to strengthening our organisational discipline, to working to build a dedicated and informed cadreship, and to countering careerism, not by pretending that there are not many thousands of full-time professionals in our movement, but with more thoughtful career-pathing, collective team-building, and cadre-development.

These are correct decisions, but they need to be reinforced, I am suggesting, by linking the struggle against careerism, factionalism and organisational decay to a thoughtful approach to:

- sustaining our organic links with the main social motive forces in our society, and
- by fostering and strengthening the rich organisational diversity that remains mobilised under the broad ANC banner.



We have assets that many other progressive political formations emerging from the 20th century do not have. We cannot, however, afford to take these assets simply for granted.

Book review

Black Student Politics - Higher Education and Apartheid: from SASO to SANSCO - 1968-1990 by Saleem Badat, HSRC 1999

Review by Oupa Bodibe

A historical analysis of the role of the student movement is long overdue. The book by Saleem Badat '*Black Student Politics - Higher Education & Apartheid: from SASO to SANSCO - 1968-1990*' fills a vacuum long identified by student activists themselves.

Badat offers a dispassionate and scholarly account of SASO and SANSCO, without digressing into a boring historical narrative. The critical distance he adopts assists the author to provide an interesting, yet frank and honest assessment of the two organisations. The book interrogates assumptions and positions adopted by the two organisations, and having been part of the student leadership of the time (serving on the AZASO NEC during the early 80's) it is also a journey of rediscovery for the author.

The book is neither politically nor ideologically neutral. It is written from a perspective, which is avowedly anti-apartheid and sympathetic to the democratic cause. It is based on rigorous research, which underpins its analysis and most of its conclusions. This mix of a political and scholarly approach provides a proper, albeit critical, perspective on the student movement.

The book is divided into three parts. The first develops a conceptual framework, which is handy for interpreting and analysing the two organisations. The second part traces the genesis and factors leading to the formation of SASO. It analyses SASO's ideological stance, its role, structures and context and then evaluates its significance. Similarly the third part analyses the history of SANSCO, its role, significance and structures.

The conclusion pulls together the various themes in the book and draws several political conclusions on the two organisations. It also serves as a brief prognosis of the current higher education student movement. Badat characterises both SASO and SANSCO as "mass, black, revolutionary, national, higher education student political organisations." He interrogates the similarities and differences between the two organisations and reflects on the institutional, political and conjunctural context within which the two organisations operated.

SASO emerged in an environment of general political apathy and fear of the apartheid regime engendered by the banning of the liberation movement and the repression of the 60's. SASO filled a political vacuum, leading it to erroneously project students as the vanguard of the struggle. Pursuant to this objective, it was instrumental in the Black People's Convention and the SASO intellectuals shaped the ideology of the Black Consciousness Movement.

SASO emerged in the context of the consolidation of the Apartheid separate development project, which also encompassed tertiary education. It represented a vocal opposition to this policy of separate development. Its main weaknesses however was that it did not clearly articulate a broad strategic approach on education as a terrain of struggle nor did it engage in proposing an alternative framework for a post apartheid education system, limiting itself to an oppositional mode.

Badat also demonstrates that SASO was not as ideologically homogeneous as is popularly thought. It drew into its ranks members from different progressive political outlooks. Although the official ideology was Black Consciousness, there was the beginning of a class-race discourse emerging within SASO, which of course was disrupted by the banning of SASO and the persecution of its activists. Where this



could have led is a matter of speculation and conjecture:- Would SASO and its leadership eventually have gravitated towards the Congress movement?

SANSCO on the other hand, operated under more favourable conditions relative to SASO. It reaped the benefits of the post-1976 political groundswell. The fact that there was a resurgence of mass popular movement, including the UDF, and a growing and increasingly more militant black trade union movement, saved SANSCO the burden of being the 'vanguard of the struggle'.

SANSCO fashioned its strategic locus to be the education terrain, obviously as part of the overall struggle against apartheid. Its innovative contribution is the focus of education as a terrain of struggle. To this extent, it spearheaded the Education Charter Campaign. The fact, that the Education Charter Campaign was never completed should not detract from its strategic significance. But like SASO, it failed to provide a clear blueprint on what a post apartheid higher education system should look like. Nonetheless its initiative has enabled SASCO to participate in higher education policy formulation.

It is not possible to reproduce Badat's comparative analysis of SASO and SANSCO save a few salient features. In terms of similarities, both organisations organised black students into political activism. They served as informal political education schools, and were important training and recruiting bases for the liberation movement, particularly the ANC. They were radical to the extent that they challenged the apartheid system and advocated a different political and economic dispensation. They also served as catalysts of political campaigns initiated by other mass organisations or at their own initiative.

The main difference was ideological and strategic orientation. According to Badat SASO was highly 'voluntarist' in temperament while SANSCO was characterised as being more strategically calculating. Of course SASO's voluntarism was a product of the political inexperience of its activists. In a positive sense it enabled it to escape the repression meted by the regime. On the other hand, SANSCO had the benefit of the resurgence of the political movement and had access to numerous experienced activists some of whom had been former SASO members who were leaders of the UDF and other mass organisations of the 80's.

Badat's prognosis of post-1990 student politics is rather simplistic and in some respects inaccurate. Admittedly due to space constraints he has not been able to undertake rigorous analysis of the student movement post-1990. First, he contends that there is now a disjuncture between the student movement and the broader mass democratic movement.

He suggests that exclusive concern with education is creating a new "me" generation of students as opposed to the past "we" generation. The latter is defined as having being closely linked with the broader struggle and not confined to higher education institutions.

This of course is highly contestable on three grounds. Firstly, a closer look at the student movement post-1990 would have revealed a student movement still preoccupied with broader political questions. Prior to 1994 there were many vibrant debates at least within SASCO on the negotiations then taking place. It also participated in the political campaigns of the time as part of the ANC-led mass democratic movement.

Post 1994, SASCO at least at the level of ideas was still very much integrated with the broader mass democratic movement. It developed an innovative idea of establishing Student RDP-Brigades more or less similar to SASO's community projects. These were unevenly implemented due to a number of constraints including weak organisational coordination. Surely there are continuities between SANSCO's focus on higher education as a terrain of struggle and SASCO's contributions. SASCO advanced this notion by being very active in shaping the higher education policy.

Secondly, Badat does not analyse the dilemmas for independent yet aligned mass organisations presented by the new dispensation. There is now a legitimate democratic government which organisations like SASCO support.



Nonetheless higher education and other centres of power have not been fully transformed. This therefore necessitates mass movements to drive this transformation as well as to contest the nature of that transformation. The experience of the last five years shows that the higher education terrain is highly contested. Contesting the course and direction of transformation can sometimes pit the students against the managers of institutions and the state, particularly around resource allocation. The third reason not investigated by Badat is the absence of a broader mass education movement (like the NECC during SANSCO times) as well as the ill-defined relations between the ANC and the mass democratic movement.

Mass democratic organisations have no clearly defined structural relationship with the tripartite alliance, unlike during the UDF-era. Inevitably, this is bound to have an impact on their overall outlook and daily operations. It is for these reasons that I believe that Badat's treatment of the student movement post-90's betrays the style of his book by not objectively analysing the current student movement.

Having said this, one does not deny that there is definite change within the student body and the student movement, which needs further analytical and scholarly enquiry. This is a challenge that the current student leadership and progressive intellectuals generally must tackle.

If there are gaps in the book they relate to the absence of a systematic analysis of the high school student movement and NUSAS. For this reason, this book cannot be regarded as a comprehensive history of the student movement. However, the author cannot be accused of consciously neglecting these questions since his chosen subject matter was SASO and SANSCO. Though important, these gaps do not detract from the value of the book.

Badat must be congratulated for taking the time to write a history of SASO and SANSCO. One of the failures of the democratic movement is the paucity of historical writing recording the experience for future generations. Badat's book should therefore be seen as part of a small yet growing attempt of those from the formerly oppressed and colonised to record their history.

THE BLUE NOTE LEGACY

Our common heritage

By Mandla Nkomfe

It has become custom for South Africans to welcome spring by celebrating our musical and other artistic achievements. During September we pay tribute to South African Music Heroes. Since the democratic breakthrough of 1994, we have seen significant progress on the music front.

The ground that the jazz artform managed to cover over a very limited period of time particularly impresses me.

In this short time, musicians such as Moses Molelekwa, Jimmy Dludlu, Zim Ngqawana and Gloria Bosman have put South African jazz back on the world map.

I am however worried, that as we celebrate our heritage month, we should not forget the generation of brave and committed musicians, painters and writers who committed themselves to freeing South Africa.

Foremost in this generation were musicians who defied the apartheid regime by establishing themselves as a non-racial group and who through their music exposed the stupidity of racism.

It is this group who went on to introduce a style of music that hitherto was unknown in South Africa.



This group - the Blue Notes - pushed the frontiers and contours of our music to new heights. The early 1960's were a period of vibrant musical experiments, which could be said to be a renaissance period. It was a period pregnant with possibilities in literature, drama and music. The social milieu of the Blue Notes shaped our jazz experience by introducing what was known as the free form of jazz, pioneered by the likes of Ornette Coleman, Sun Ra, Don Cherry, John Coltrane, Albert Ayler and Cecil Taylor.

This was a musical expression that moved beyond the bounds set by European classical music. Its practitioners challenged the musical range in a standard instrument. This genre brought back African themes, nationalism and the spiritual experiences of the Afro-American urban working class. They fused their music with the living experiences of South Africans.

Central to this highly successful group were men of outstanding abilities such as Chris McGregor (leader of the group), Dudu Pukwana, Nick Moyake, Jonny "Mbizo" Dyani (comparable only to Charles Mingus and Ray Brown), Louis Moholo and that golden boy from Queenstown, Mongezi Feza.

This band won the Cold Castle Jazz Festival jazz band prize in 1963. Their last concert in South Africa was in 1964, Durban. To get the mood, spirit and vitality of the music as played at that famous concert, I suggest that readers listen to their CD entitled "The Blue Notes Legacy - Live in South Africa".

By the mid 1960's the group moved into exile in the UK and Europe, where they continued to set ablaze the jazz scene in those countries. In exile they constituted themselves as the "Brotherhood of Breath". Later on they pursued their individual play and occasionally came together as a group. These comrades were not just musicians but cultural ambassadors of our struggle.

They were central to the anti-apartheid struggles abroad. They were the best embodiment of the notion of culture as a weapon of struggle. All members of the group save Louis Mohole have since died. Louis Mohole visited South Africa in 1993 with his group called Viva la Black. They entitled their visit the "Freedom Tour". Mohole himself has worked with giants such as Steve Lacy and John Tchicai.

Musicians who have dipped into the Blue Note music include the likes of Zim Ngqawana, Feya Faku, Andile Yeyane, Joe Malinga and Ntshukuma Bonga to name but a few. Their music has not been sufficiently celebrated in our country except for the recent nation-wide tour by Zim Ngqawana.

As we celebrate South African music week, we should not forget the legacy of the Blue Notes, which as a group, defied laws such as the Reservation of Separate Amenities Act, Native Laws Amendment Act and the Group Areas Act which were used by some white musicians to prevent black musicians from competing. The Blue Notes were a truly a non-racial outfit.

This group left a legacy of the most profound musical style that still has to be appreciated. It is a style that never compromised quality, but demanded commitment and devotion. They lived for music and used this art form to advance our freedom struggle. I hope young musicians will discover the Blue Note legacy and emulate their experience. For our musicians the perfect tribute to these compatriots is to continue to push the boundaries of the jazz idiom to new heights.

Writing in May 1995, Louis Moholo had this to say to these departed giants, "You are never far from my dreams or my thoughts."

Lately, my voice is yours hence Freedom my brother is you. Dudu Pukwana, Jonny Dyani, Mongezi Feza, ChrisMcGregor, Nikele Moyakhe, Harry Millar, Dumile Feni, John Stevens.

Our song Free Mandela, Free South Africa was not in vain. Freedom. This is our final encore my brothers perhaps now I can say, freedom is you. You have the final Song. The show must go on Freedom".

