

GEAR AND NEO-LIBERALISM

By Thabo Mbeki
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[Last year, I wrote to a comrade to engage him on an article he had written in one of the local newspapers to engage him on one of the issues he raised, i.e. as a country, "we self-imposed a [neo-liberal] structural adjustment programme" in 1996. We reproduce the letter as a two part series with the comrade's permission. Part II will be published on Monday next week.]

Part I

Dear Comrade Evaristo*

In your article, you refer to our adoption of the GEAR document in 1996 which some have derogatively claimed constituted "the 1996 class project" as "a self-imposed a [neo-liberal] structural adjustment programme".

In this context, as in the past, I have been very keen to understand two questions, namely:

- (i) what was neo-liberal about GEAR; and,**
- (ii) in what sense was it a "structural adjustment programme"?**

I

It is obvious that to answer these questions requires an understanding of what is meant by neo-liberalism. I believe that what I cite below adequately explains what is meant by economic neo-liberalism.

In an article entitled *What is Neoliberalism?*, published by *CorpWatch: Holding Corporations Accountable*, Elizabeth Martinez and Arnaldo Garcia say:

"Neo' means we are talking about a new kind of liberalism. So what was the old kind? The liberal school of economics became famous in Europe when Adam Smith, a Scottish economist, published a book in

1776 called *THE WEALTH OF NATIONS*. He and others advocated the abolition of government intervention in economic matters. No restrictions on manufacturing, no barriers to commerce, no tariffs, he said; free trade was the best way for a nation's economy to develop. Such ideas were "liberal" in the sense of no controls. This application of individualism encouraged "free" enterprise, "free" competition - which came to mean, free for the capitalists to make huge profits as they wished...

"The main points of neo-liberalism include:

- 1. THE RULE OF THE MARKET.** Liberating "free" enterprise or private enterprise from any bonds imposed by the government (the state) no matter how much social damage this causes. Greater openness to international trade and investment, as in NAFTA. Reduce wages by de-unionizing workers and eliminating workers' rights that had been won over many years of struggle. No more price controls. All in all, total freedom of movement for capital, goods and services. To convince us this is good for us, they say "an unregulated market is the best way to increase economic growth, which will ultimately benefit everyone." It's like Reagan's "supply-side" and "trickle-down" economics -- but somehow the wealth didn't trickle down very much.
- 2. CUTTING PUBLIC EXPENDITURE FOR SOCIAL SERVICES** like education and health care. **REDUCING THE SAFETY-NET FOR THE POOR**, and even maintenance of roads, bridges, water supply - again in the name of reducing government's role. Of course, they don't oppose government subsidies and tax benefits for business.
- 3. DEREGULATION.** Reduce government regulation of everything that could diminish profits, including protecting the environment and safety on the job.
- 4. PRIVATIZATION.** Sell state-owned enterprises, goods and services to private investors. This includes banks, key industries, railroads, toll highways, electricity, schools, hospitals and even fresh water. Although usually done in the name of greater efficiency, which is often needed, privatization has mainly had the effect of concentrating

wealth even more in a few hands and making the public pay even more for its needs.

5. ELIMINATING THE CONCEPT OF "THE PUBLIC GOOD" or "COMMUNITY" and replacing it with "individual responsibility." *Pressuring the poorest people in a society to find solutions to their lack of health care, education and social security all by themselves - then blaming them, if they fail, as 'lazy'."*

In 1999, the US Center for Economic and Policy Research published a paper by Robert Naiman and Neil Watkins entitled "***A Survey of the Impacts of IMF Structural Adjustment in Africa: Growth, Social Spending, and Debt Relief***". They write:

"Structural adjustment programs generally require countries to adopt policies such as:

- Reductions in government spending;*
- Monetary tightening (high interest rates and/or reduced access to credit);*
- Elimination of government subsidies for food and other items of popular consumption;*
- Privatization of enterprises previously owned or operated by the government; and*
- Reductions in barriers to trade, as well as to foreign investment and ownership."*

The two questions that arise from these correct comments about economic liberalism, economic neo-liberalism and the IMF/World Bank structural adjustment programmes are:

- (iii) in what part does the GEAR document advocate the policies listed by Martinez and Garcia under 1 – 5, as well as those identified by Naiman and Watkins; and,**
- (iv) when and in what way did the Government enunciate and implement such policies?**

II

The **objectives stated in the GEAR document** include the following:

"As South Africa moves toward the next century, we seek:

- *a competitive fast-growing economy which creates sufficient jobs for all work seekers;*
- *a redistribution of income and opportunities in favour of the poor;*
- *a society in which sound health, education and other services are available to all; and*
- *an environment in which homes are secure and places of work are productive."*

Further on, the document says it contains 'an Integrated Strategy' and continues:

"The core elements of the integrated strategy are:

- *a renewed focus on budget reform to strengthen the redistributive thrust of expenditure;*
- *a faster fiscal deficit reduction programme to contain debt service obligations, counter inflation and free resources for investment;*
- *an exchange rate policy to keep the real effective rate stable at a competitive level;*
- *consistent monetary policy to prevent a resurgence of inflation;*
- *a further step in the gradual relaxation of exchange controls;*
- *a reduction in tariffs to contain input prices and facilitate industrial restructuring, compensating partially for the exchange rate depreciation;*
- *tax incentives to stimulate new investment in competitive and labour absorbing projects;*

- *speeding up the restructuring of state assets to optimise investment resources;*
- *an expansionary infrastructure programme to address service deficiencies and backlogs;*
- *an appropriately structured flexibility within the collective bargaining system;*
- *a strengthened levy system to fund training on a scale commensurate with needs;*
- *an expansion of trade and investment flows in Southern Africa; and*
- *a commitment to the implementation of stable and coordinated policies."*

Where it deals with **fiscal policy**, the GEAR document says:

"Recent fiscal trends in response to the unsustainable fiscal situation that had developed by 1992/93, when the overall deficit reached 7,9 percent of GDP, fiscal policy has been informed by the following goals:

- *to cut the overall budget deficit and the level of government dissaving;*
- *to avoid permanent increases in the overall tax burden;*
- *to reduce consumption expenditure by general government relative to GDP; and*
- *to strengthen the general government contribution to gross domestic fixed investment."*

Contrary to the neo-liberal intervention mentioned by Martinez and Garcia of cutting public expenditure for social services, near the end of the GEAR document we find the following commitment:

"For its part, the government commits itself to an accelerated increase in its contribution to social and community living standards. Most of the policy frameworks and institutional systems are now in place to ensure the following:

- *the delivery of housing and related services;*
- *steady improvement in the quality of education;*
- *universal access to primary health care;*
- *access to land and agricultural support for emergent farmers;*
- *electrification of all urban areas and an increasing number of rural communities;*
- *reliable water supplies and appropriate sanitation infrastructure;*
- *improved postal and telecommunications services; and*
- *a broad social security net, comprising social grants and targeted welfare services."*

The foregoing, relating to the stated objectives in the GEAR document, makes it necessary to pose the questions:

- (v) in what way do these objectives constitute a neo-liberal agenda;**
- (vi) in what way do they constitute "structural adjustment"; and,**
- (vii) (vii) in what way did the Government deviate from these objectives?**

III

At this point I would like to mention and underline the fact that GEAR was elaborated and adopted specifically to respond to various comments made in the RDP document concerning the macro-economy.

In this regard, these are some of the relevant comments in the RDP document:

"Specific structures are necessary to implement the RDP; their functions will be...:

- *to ensure a macro-economic policy environment that is stable."*

Further:

"We must finance the RDP in ways that preserve macro-economic balances, especially in terms of avoiding undue inflation and balance-of-payments difficulties."

And later:

"It is clear that government policy and mechanisms of raising finance are crucial to the success of the RDP. If they were to cause excessive inflation or serious balance of payments problems they would worsen the position of the poor, curtail growth and cause the RDP to fail. Government contributions to the financing of the RDP must, therefore, avoid undue inflation and balance of payments difficulties. In the long run, the RDP will redirect government spending, rather than increasing it as a proportion of GDP..."

"The existing ratios of the deficit, borrowing and taxation to GNP are part of our macro-economic problem. In meeting the financing needs of the RDP and retaining macro stability during its implementation, particular attention will be paid to these ratios. The emphasis will be on ensuring a growing GDP, improved revenue recovery, and more effective expenditure in order to make more resources available. In the process of raising new funds and applying them, the ratios mentioned above must be taken into account..."

"There is a need for an overall foreign debt strategy. The RDP must use foreign debt financing only for those elements of the programme that can potentially increase our capacity for earning foreign exchange. Relationships with international financial institutions such as the World Bank and International Monetary Fund must be conducted in such a way as to protect the integrity of domestic policy formulation and promote the interests of the South African population and the economy."

Quite early on the RDP document says: *"Within the framework for policy represented by the RDP, the ANC will develop detailed positions and a legislative programme of government."*

GEAR was prepared and adopted to respond exactly to this directive, including the macro-economic imperatives mentioned in the RDP.

The questions that arise from the immediate foregoing are:

- (viii) **were the macro-economic challenges identified in the RDP neo-liberal in nature; and,**
- (ix) **did the effort in GEAR to address these challenges constitute both “structural adjustment” and a manifestation of neo-liberal policy?**

IV

The comments above extracted from the RDP document also relate to the important issue of the **National Debt**, and say, among others:

“The existing ratios of the deficit, borrowing and taxation to GNP are part of our macro-economic problem...There is a need for an overall foreign debt strategy.”

It is in this context that we must understand the observation from the GEAR document cited above which explains that part of Government fiscal policy since 1994 had been *“to cut the overall budget deficit and the level of government dissaving (and) to avoid permanent increases in the overall tax burden...”*

GEAR also sought to sustain these policy positions exactly to ensure that democratic South Africa does not fall into a debt trap which would oblige her to appeal for assistance from the IMF, which would inevitably impose a real neo-liberal structural adjustment programme on the country.

With the budget deficit having reached almost 8% of GDP it was obvious that very quickly the country would arrive at the point where it would have to spend such large sums on servicing the debt – paying the money lenders - arising from this high deficit, that little would be left in the budget to discharge the Government responsibilities to the people.

Part of the “left” critique of GEAR focused on the matter of the reduction of the budget deficit, seeing this as yet another manifestation of exactly the kind of infamous *“structural adjustment”* which had historically been imposed on the countries of the South by the Bretton Woods institutions.

Below I will reproduce a fairly long excerpt from Karl Marx’s *Das Kapital*, Vol 1, which appears in the Chapter entitled *“Genesis of the*

Industrial Capitalist”.

I apologise for the length of this extract but I think that it needs to be studied carefully especially by those who define themselves as belonging to the “left”.

The extract deals with the matter of the National Debt and its relationship not only with the matters of the budget deficit and taxation as mentioned in the RDP, but also with the very issue of the development of capital and the attendant impoverishment of the working people and the liquidation of the petty bourgeoisie.

It therefore seemed very strange to some of us that “the left” could be wedded to even larger budget deficits which lead directly to the growth of the National Debt, which has the consequences which Marx eloquently identified.

Marx wrote:

“The system of public credit, i.e., of national debts, whose origin we discover in Genoa and Venice as early as the Middle Ages, took possession of Europe generally during the manufacturing period. The colonial system with its maritime trade and commercial wars served as a forcing-house for it. Thus it first took root in Holland. National debts, i.e., the alienation of the state – whether despotic, constitutional or republican – marked with its stamp the capitalistic era. The only part of the so-called national wealth that actually enters into the collective possessions of modern peoples is their national debt...Public credit becomes the credo of capital...”

“The public debt becomes one of the most powerful levers of primitive accumulation...The state creditors actually give nothing away, for the sum lent is transformed into public bonds, easily negotiable, which go on functioning in their hands just as so much hard cash would...”

“At their birth the great banks, decorated with national titles, were only associations of private speculators, who placed themselves by the side of governments, and, thanks to the privileges they received, were in a position to advance money to the State. Hence the accumulation of the national debt has no more infallible measure than the successive rise in the stock of these banks, whose full development dates from the founding of the Bank of England in 1694.”

“With the national debt arose an international credit system, which

often conceals one of the sources of primitive accumulation in this or that people. Thus the villainies of the Venetian thieving system formed one of the secret bases of the capital-wealth of Holland to whom Venice in her decadence lent large sums of money...A great deal of capital, which appears today in the United States without any certificate of birth, was yesterday, in England, the capitalised blood of children.

"As the national debt finds its support in the public revenue, which must cover the yearly payments for interest, &c., the modern system of taxation was the necessary complement of the system of national loans. The loans enable the government to meet extraordinary expenses, without the tax-payers feeling it immediately, but they necessitate, as a consequence, increased taxes...

"Modern fiscality, whose pivot is formed by taxes on the most necessary means of subsistence (thereby increasing their price), thus contains within itself the germ of automatic progression....Over-taxation is not an incident, but rather a principle. In Holland, therefore, where this system was first inaugurated, the great patriot, DeWitt, has in his "Maxims" extolled it as the best system for making the wage labourer submissive, frugal, industrious, and overburdened with labour...

"The great part that the public debt, and the fiscal system corresponding with it, has played in the capitalisation of wealth and the expropriation of the masses, has led many writers, like Cobbett, Doubleday and others, to seek in this, incorrectly, the fundamental cause of the misery of the modern peoples."

Of particular note in this extract is that Marx, among other things, wrote:

"The public debt becomes one of the most powerful levers of primitive accumulation...In Holland, therefore, where this system was first inaugurated, the great patriot, DeWitt, has in his "Maxims" extolled it as the best system for making the wage labourer submissive, frugal, industrious, and overburdened with labour."

The questions which arise from the foregoing are:

- (x) did Marx merely presage what was later to emerge as neo-liberal structural adjustment when he warned against sustained budget deficits which lead**

to the emergence of the onerous National Debt, with its consequences; and,

- (xi) does the fact that the Bretton Woods institutions have on many occasions, as part of neo-liberal structural adjustment, imposed the task to reduce budget deficits, mean that maintaining high budget deficits is 'always the progressive thing to do'?**

* Evaristo is not the real name of the recipient of this letter.