The Spectre of Debt in South Africa[1]

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In the fall of 2003, the Government of South Africa accomplished a remarkable feat – to beat back the country's looming debt crisis and banish the spectre of debt for the foreseeable future. What made the feat so remarkable was not the belt-tightening borne by the poor majority, who had already been forced to sacrifice so much during the apartheid years (though this certainly was the case) but that there was no debt crisis in the first place. To be sure, there were legitimate fears that South Africa might encounter debt-servicing difficulties if the deficit and accumulated debt were not addressed with an appropriate strategy. Casting the situation as somewhat worse than it was, however, provided a rationale for introducing monetarist and neo-liberal restructuring policies. Ironically enough, these policies actually contributed to the debt situation just as much as they addressed it.

The paper explores the real and symbolic meaning of debt in South Africa's first decade of democracy. It argues that the spectre of debt, specifically, the threat of a debt crisis, has played a dramatic, sometimes contradictory and largely unrecognized role in shaping the discourse of economic restructuring. As I show, fears that debt might become unsustainable if not immediately addressed, inspired in large part by the experiences of the rest of sub-Saharan Africa during the 1980s, were critical in garnering sufficient consensus among the political elite for the government's neo-liberal macro-economic restructuring program. In practice, though, the new economic framework had a highly ambiguous relationship with South Africa's domestic and foreign indebtedness, with monetary policy contributing to debt-build-up through exceptionally high interest rates while fiscal policy prioritized preventing the debt from spinning out of control. The perception among political elites in the African National Congress (ANC) that a debt crisis was looming legitimized the program of fiscal restraint, even among those who favoured a more expansionary framework for economic restructuring in post-apartheid South Africa, and drew attention away from the role monetary policy played in building up the debt. Indeed, the two aspects of macro-economic policy were lumped together as embodiments of prudence, even though their effects were contradictory.

The paper suggests that what was at stake wasn't really preventing a debt crisis, but rather, launching a neo-liberal economic restructuring program *in toto*; liberalizing trade and investment regulations, slashing labour costs, cutting corporate taxes, privatizing state firms and reducing the overall size of the state in the hopes of creating a climate ostensibly conducive to investment. The neo-liberal restructuring program, embodied in the 1996 *Growth, Employment and Redistribution* (GEAR) strategy but initiated much earlier (indeed, rooted in the economic policy initiatives of outgoing apartheid government), would have faced much stronger challenges from within the ANC circle of political allies had it not been disguised as a short-term, unavoidable set of measures to prevent South Africans from suffering the economic fate of the rest of the continent.

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The spectre of debt carried over into social movement politics, framing the discursive space within which alternatives could be put forward. The final section of the paper analyzes two such initiatives. South Africa's Jubilee 2000 coalition mobilized activists for apartheid debt cancellation to free up public resources to meet social needs, but paradoxically, may have reinforced the government's contention that debt reduction was a top policy priority and the low levels of social expenditure were caused by the debts left behind by the previous government, instead of a ruse cynically employed to launch a neo-liberal economic restructuring program. The People's Budget Campaign, which focused on contesting fiscal policy and thinking through practical strategies to reduce the debt, may have gone farther to challenge the elision of neo-liberal policies, debt avoidance and growth, though its proposals have been only marginally influential on the government to date and the analysis has had little impact on public discourse.

The successful portrayal of the government's economic restructuring program as a debt-avoidance strategy eventually allowed the government to distance itself from its own unpopular policies, by claiming that its program was necessary to address a legacy of apartheid and to avoid a future as bleak as that of the rest of the continent. Recently, we have begun to see shifts in debt discourse in South Africa, specifically the government's contention in its ten-year policy review (2003) that the spectre of debt was no more, and that the country could move to a new, more expansive economic program. Moreover, it established a direction forward in the face of few identifiable successes of the first decade of economic restructuring in terms of the needs of the government's largest voting constituency. The 'new direction' was pre-configured by a slight shift in monetary policy, and adopts a slightly more expansionary fiscal stance, but in a context of significant structural change in the economy brought on by GEAR.

The ten-year policy review – lemonade from lemons

South Africa's ten-year policy review identified two significant challenges the government faced during the first decade of democracy: to transform the institutions of governance to reflect the country's new, non-racial, non-sexist citizenship framework; and to integrate the economy into global markets while seeking to address the inequities of apartheid (GSA, 2003: 2).

> Economically, the country was isolated through sanctions and the resultant import-substitution industrialisation meant that many firms were unable to compete in global markets. In the decade preceding 1994, growth declined to below 1% per annum and by the early 1990s economic growth had come to a standstill with the 1992 recession and drought. *Public sector debt was ballooning out of control* as the apartheid regime sought to buy support (GSA, 2003: 7. Emphasis added).

Although the government could show that it had made considerable inroads in deracializing the state and in introducing economic restructuring policies to foster global integration, it could not claim that the initiatives had improved the economy much, especially in terms of the daily lives of most South Africans. The government's own research showed investment was still low compared to successful developing countries, and even lower if investment by the public sector and publicly owned corporations was factored out (GSA, 2003: 34). Per capita growth throughout the first decade of democracy averaged only one percent (GSA, 2003: 35). And although the government said that more than 1.5 million jobs had been created in a decade, a success rate that was highly contested in some quarters, no one disputed that employment creation failed to keep pace with the number of new entrants to the workforce, nor that most of the new jobs were low-paying, insecure non-standard work (GSA, 2003 36). Indeed, the formal economy shed a remarkable 600,000 formal sector jobs between 1996 and 2000 (PBC, 2002: 7). According to the 2001 Labour Force Survey, twenty percent of informal-sector jobs paid no income at all, and a further 43 percent of low-income earners made less than 500 Rand per month (less than US$100) (PBC, 2002: 9).

The best progress the government's policy review could report was in macro-economic indicators, purportedly showing that 'prudent' fiscal policy had successfully averted a looming debt crisis. The following chart was presented in support of the effectiveness of the government's economic restructuring program (GSA, 2003: 33):

Macro-economic stability	**Period**	**Quantity**
Budget Deficit	1993	9.5% of GDP
	2003	1% of GDP
Public sector debt	1994	64% of GDP
	2003	50% of GDP
Foreign reserves	-	Risen from 1 month's import cover to 2.5 months' import cover

The ten-year policy review document went on to suggest that:

> These advances create opportunities for real increases in expenditure on social services, reduce the costs and risks for all investors, and therefore lay the foundation for increased investment and growth (GSA, 2003: 33).

The government had deftly woven a story about how its prudent macro-economic policies, although initially reviled by its political allies, had cleared the way to respond to the needs of the poor majority while avoiding a debt trap. Although they had been forced to resist demands improve living conditions by spending more, now the government could respond – though not too much – without appearing to backtrack on their previous program. Instead of being forced to account for a glaring policy failure that must be reversed, the government's economic restructuring program was portrayed as a success that provided the basis to enable a more popular agenda to go forward in subsequent years. Thus, message of Finance Minister Trevor Manual and Deputy President Thabo Mbeki at the time of GEAR's announcement in 1996 – *there is no alternative* – was reaffirmed rather than repudiated in the ten year policy review: "there is little or no evidence to suggest that [the government] should have made alternative choices," (GSA, 2003: 74). There *had been* no alternative, but now there were new options because the previous decade's economic program had eliminated the legacy of apartheid economic mismanagement. Importantly, the 'new direction' sought to legitimize neo-liberal restructuring by mollifying critics with the promise of new spending or disorganizing their dissent, without reversing the program at all, at least in any of its essential elements.

The spectre of debt – real fears and African realities

Why did the spectre of a debt crisis have so much resonance in South Africa, when the country faced so many pressing socio-economic, political and environmental problems? The answer seems obvious – the debt crisis that infected virtually all of Sub-Saharan Africa from the early 1980s quite reasonably inspired fear that South Africa would find itself in a similar situation and be required to adopt the neo-liberal 'medicine' of the International Monetary Fund (IMF). The African debt crisis could not help but hit close to home. During the 1980s, a severe economic crisis hit the resource-export-dependent economies on the continent, and country after country found itself unable to service its debt, much of which was held by public creditors (Cheru, 2002: 3-4). For many in the liberation movement who were in exile, this was no abstract foreign problem: the ANC headquarters was in Zambia, and President Thabo Mbeki, along with other key ANC political figures, were stationed in Lusaka, the capital city, throughout most of the 1980s. Zambia had a dreadful experience with its debt crisis and IMF-led structural adjustment during this time, as did Mozambique, which was forced to abandon its socialist economic program in part as a result of debt servicing difficulties, and the ANC could not help but have been influenced by their experiences.

The story of Zambia's debt crisis is well known but it is worth reviewing some of the more salient points, in light of its apparent significance as a cautionary tale for South Africa's policy-makers. Through the 1970s, Zambia followed a typical import substituting industrialization strategy – manufacturing was highly protected, import-dependent and capital-intensive with a significant level of state ownership (Seidman, 1979: 101; Jansen, 1988: 13). The economy was extremely open, with trade accounting for roughly forty percent of gross domestic product (Jansen, 1988: 3). The primary export was copper, which accounted for between eighty-five and ninety percent of foreign exchange earnings (Gulhati, 1989: 3). Between 1980 and 1984, Zambia's terms of trade declined by forty percent (Young, 1990: 6). Meanwhile, products imported by Zambia, notably oil and manufactures, rose in price. The superficial similarities with South Africa were unmistakable. Although Zambia was less industrialized, had no major locally-owned transnational mining conglomerates and had a lower per-capita income than South Africa, both had a manufacturing sector created as a result of import substituting policies that was not internationally competitive, significant state ownership in (or associated with) the minerals sector, export dependence on minerals, a high level of urbanization and a notably unequal distribution of income.

During the 1970s, the Government of Zambia believed that the fall in copper prices was temporary and therefore borrowed to maintain demand and keep the economy from suffering a recession (Young, 1990: 7; Gulhati, 1989: 7). But by 1979, the twin shocks of the second oil price rise and the drastic rise in US interest rates signalled that Zambia's economic crisis was structural rather than a short-term downturn. At first, borrowing to maintain employment and consumption remained the main strategy. Zambia already had exhausted its eligibility for low-conditionality International Monetary Fund loans, so had to accept fairly significant restructuring criteria to receive new money and the important IMF "seal of approval" that unlocked the door for World Bank and bilateral development assistance. Zambia embarked upon the first of several structural adjustment programs in 1981, followed by new agreements in 1983, 1984 and 1987 (Gulhati, 1989: 31; Young, 1990: 19), each more drastic and short-lived than the last. Zambia's arrears piled up and rescheduling came at a price of high interest rates and other penalties and charges, further compounding its liabilities. In 1985, its indebtedness was 143 percent of gross domestic product; one year later, as a result of a significant devaluation of the Zambian currency, it stood at 400 percent of GDP (Young, 1990: 6). That year, the interest bill alone on Zambia's debt was forty percent of the government's budget (Clark, 1988: 12). In 1988, total debt per capita was $US 868, while Zambia's GNP per capita was only $US 300. Scheduled debt service absorbed 48 percent of exports (World Bank, 1989: 45). This made Zambia a severely indebted low income country as classified by the World Bank (World Bank, 1989: 51) and forced the government to become more responsive to foreign creditors than to its own citizens – initially causing a split with the IMF and resulting economic isolation of Zambia for a number of years, and eventually triggering a dramatic change in the political regime. The lesson here seemed obvious – that a debt crisis should be avoided at all costs.

Mozambique, home to a victorious liberation movement that introduced an explicitly socialist economic restructuring program, was forced to accept a neo-liberal reform package within ten years of liberation. Low growth, poverty, inflation, foreign exchange shortages and persistent budget deficits were signs that the new government could not easily engineer a planned economy, especially in a global neo-liberal economic context. In 1984, a short ten years after independence, Mozambique had little choice but to turn to the IMF for a restructuring loan that incorporated extensive conditions, in order to reschedule existing debt and access development assistance. In 1987, when Mozambique received its first debt rescheduling package, export earnings covered less than twenty percent of total imports (which themselves were at less than fifty percent of their 1980 level); external debt totaled $3.2 billion of which $1.4 billion was arrears; annual debt servicing had reached 2.5 times export earnings and annual interest payments exceeded foreign exchange earnings; the annual budget deficit was now greater than one half of government spending (Loxley, 1988: 3-4; Roesch, 1988: 6-8).[2] By now, the debt had caused Mozambique to lose any autonomy in economic policy-making, and generations of Mozambicans would be forced to deal with this legacy (Hanlon, 1996; Plank, 1993; Bowen 1992). Like Zambia, Mozambique presented a sobering lesson: that any viable economic restructuring alternative had to be cognizant of the hostile global environment, and of the dangers of constructing an unsuccessful economic program.

Debt management in South Africa

Although the closest South Africa came to a debt crisis occurred in 1985, the matter of South Africa's debt situation was discussed throughout 1993, when $5.5 billion outstanding foreign financial obligations were set of expire. Technically, the entire amount would have been payable then (when South Africa had only $3.5 billion in foreign reserves), although there is no indication there was any real danger that refinancing could not have been secured. The Transitional Executive Council (TEC), comprised of ANC and National Party members, signed a deal to refinance the $5.5 billion foreign debt that October. An IMF loan for $850 million in loan commitments, accompanied by a voluntary restructuring package to receive the IMF's 'seal of approval,' soon followed. Nonetheless, knowledge of the debt crisis elsewhere in Sub-Saharan Africa did appear to heighten the perception that South Africa's economy could easily be in danger, a perception that was played upon in the business press and by the country's business leaders, who never failed to highlight the dangers of 'macro-economic populism.' The outgoing government's Normative Economic Model, proposed by Finance Minister Derek Keys and essentially designed by the IMF, claimed that restoring creditworthiness on international markets by adopting an IMF/World Bank structural adjustment program was a crucial first step to restoring domestic and foreign investment in the economy, itself critical to renewing economic growth (GSA, 1993: 61).

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[2] That apartheid South Africa's military and economic destabilization activities were a significant cause of these economic woes proved irrelevant to international creditors.

Business leaders invested a lot of resources into shaping the economic policy debate. For example, their slick scenario planning exercises helped foster a perception among ANC political elites that neo-liberal restructuring was 'the only alternative' available to escape the spectre of debt. As Patrick Bond has argued, the *Mont Fleur* scenarios were dedicated explicitly to discrediting the liberation movement's 'growth through redistribution' framework and other Keynesian-inspired options. "Le Roux and his *Mont Fleur* team took to the air with a 'flamingo' scenario that outflew 'Icarus,' 'ostrich' and the 'lame duck' in a contest rigged from the start," Bond reports.

> [I]nsiders conceded [that] the subtext throughout the *Mont Fleur* process was the maiming of poor Icarus, who initially soared in trying to meet vast working-class expectations but ended up aiming too high and self-destructing. ... Icarus – aka 'the macroeconomic populist' – crashed not only against *Mont Fleur*; the first Nedcor/Old Mutual scenario scheme [another scenario planning exercise sponsored by a banking-insurance giant] also labelled populism 'the worst option of all' (Bond, p. 29).

The scenario sponsors were clever enough to acknowledge the validity of improving the material conditions of the majority, but located such tasks firmly within the government's welfare state duties, which could be tackled only after neo-liberal restructuring had been undertaken and growth had resumed. They also prioritized a broader 'culture' of individual initiative and entrepreneurialism, stigmatizing state assistance as 'charity' rather than 'rights claims' (as such assistance had been for whites during apartheid) or 'redress.' So although the scenarios acknowledged that state assistance to impoverished individuals played a valid role in the government's plans, they simultaneously insisted that the actual capacity of the state on the welfare front was severely constrained and therefore, any major new spending initiatives would have to take a back seat to economic liberalization and market-led recovery. Any other approach, they argued, risked sparking a debt crisis that would make meeting long-term economic objectives extremely difficult. These scenarios and other seemingly transparent lobbying efforts to turn ANC economic policy-makers to the right were so effective precisely because the fear South Africa could find itself in a debt crisis was not trivial, and the implications of a serious debt crisis for redressing the legacy of apartheid were just as clear to those on the political left, including the trade union leadership, as they were to those on the right.

These fears were played up by the governing ANC in the period after the June 1996 announcement of GEAR. The critically important ANC document *The State and Social Transformation*, attributed to Deputy President Thabo Mbeki and circulated in November 1996, presented the following analysis:

> To finance the expenditure associated with the efforts to buy space for the Apartheid regime during its last days, the ruling group went on a borrowing spree to finance a level of spending that could not be sustained on the basis of the extant revenue base. The figures below graphically illustrate the evolution of this problem. Total Government Debt (as at 31 March) has increased as follows:

	R billion	**% RDP**
1985	37,1	33,4
1990	96,0	38,6
1995	244,6	54,9
1996	280,0	65,0

Further to illustrate the emergence of this problem in the latter years of the Apartheid regime, we reproduce immediately below figures indicating the Debt Servicing Costs associated with the rising debt.

	R billion	% of budget	% of GDP
1985/6	4,3	12,9	3,3
1990/1	11,6	14,2	4,1
1995/6	29,2	18,6	5,8

It is important to note that costs will continue to increase and to accelerate as a percentage of the GDP unless the deficit is brought down to sustainable levels.

The Apartheid ruling group imposed on the country an unprecedented debt burden whose acquisition had to do exclusively with shifting the balance of forces during the period of transition from Apartheid to democracy, so that this anti-democratic group would not be as weakened, politically as it would otherwise be, in the contradistinction to the democratic movement (ANC, 1996: sect 2.5.8).

To address this threat, the document asserted that the government must prioritize paying down the apartheid debt and could not countenance borrowing for popular consumption:

the servicing of the state debt means the diversion of public resources from other uses. Money spent to pay interest to the lender is money not available to build a classroom, a house or a clinic. This is why the resort to borrowing to finance consumption expenditure is, in the end, a recipe for disaster. Since such consumption does not produce new and improved material conditions the mounting service and redemption obligations would result in bankruptcy of the state. It is self-evident that this is a result to be avoided.

Of importance also is, apart from the volume of the debt, the cost of servicing it. This relates to the interest that must be paid as a first charge on the public revenues. In a situation of limited resources, public borrowing can have the effect of raising interest rates.

Not only does this increase the cost of servicing the public debt, and therefore result in the reduction of state resources available for development, it also increases the cost of borrowing on everybody else in the economy. This includes the individual who borrows to finance the purchase of a house, consumer goods, etc. as well as the person who borrows for the purpose of starting a new business or expanding operations, with particular reference to small and medium business.

The inflationary effect of these processes further impacts most negatively on the poorest, who include those who have no power to adjust their incomes to keep up with the rate of corrosion of their earnings, such as the unemployed or under-employed beneficiaries of the "social welfare system of extended families," pensioners, and small savers (ANC, 1996: sect 7.12).

The narrative offered in *The State and Social Transformation* left the door open for two distinct interpretations of the purpose of GEAR. One variant was that it was a short-term initiative to excise the demons of apartheid by redressing their economic legacy. GEAR was tough medicine, but taking it now would permit a more expansionary fiscal program later. This version was offered fairly consistently to ANC-aligned audiences, for example, by then-Justice Minister Dullah Omar in 1998, who told a Toronto audience that GEAR was justifiable as a short-term measure:

> We ... must curb borrowing and reduce the deficit ... [I]f we are able to continue reducing that deficit, then in the years to come, there will be more money available for social delivery, because we will be spending less money on servicing the debt (in Bassett, 1998: 25).

The other variant suggested that GEAR was a home-grown IMF restructuring "shock treatment" program that would open the way to permanent structural change sufficient to prevent the adoption of a more state-directed, "developmental" economic restructuring program over the longer term. This was the analysis of GEAR's opponents, increasingly including trade union allies the Congress of South African Trade Unions (COSATU) (for example, COSATU 1997; COSATU 1998), but also was presented by key government figures to business audiences (Marais, 2002: 89, 90, 95-99).

Monetary policy and debt

There is little question that macro-economic policy of the late-apartheid era contributed to the debt build-up. But the reason was not just a politically-inspired spending spree – though indeed, that was part of the picture – it was also the result of the high-interest, tight-money policies introduced by South African Reserve Bank Governor Chris Stals. Stals, who was appointed by the National Party government in 1989, prioritized maintaining the external value of the Rand as well as keeping inflation as low as possible by adopting positive, and fairly high, real interest rates (Stals, 1993: 148). This approach reflected a philosophical commitment to monetarism – a commitment so strong that maintaining this policy approach into the post-apartheid era by insulating central bank policies from majority rule became a major component of the outgoing government's strategy in economic policy negotiations (MERG, 1993: 262).

After the 1994 democratic elections, therefore, monetary policy continued in the vein it had during the apartheid era. The new government re-appointed the previous SARB governor in 1994, as well as maintaining the previous Finance Minster, to signal 'macro-economic prudence' and the continuity of monetary policies to 'the market.' The ANC's own Economic Policy Department supported the tight money policies of its predecessors, revising a draft of the *Reconstruction and Development Programme* (RDP) to incorporate the claim that "macroeconomic stability is vital to the success of our programme ... (C)oherent, strict and effective monetary and fiscal policies will be a cornerstone of our RDP" (Gotz, 2000: 172-173). Moreover, the ANC agreed in the constitutional negotiations to protect the independence and autonomy of the reserve bank governor, subject only to regular consultations with the Finance Minister. The interim and final constitutions said that the primary objective of the Reserve Bank governor would be to protect the internal and external value of the currency (Republic of South Africa, 1993, Section 196; Republic of South Africa, 1996, Section 224). Under Stals, the real interest rate (the nominal rate minus the inflation rate) remained at high levels throughout the latter half of the 1990s:[3]

	1994	1995	1996	1997	1998	1999
Nominal interest rate (based on 10-year government bond rate)	16.8	14.56	15.95	14.01	16.36	13.96
Inflation rate	8.94	8.7	7.32044	8.6229	6.87203	5.21064
Real interest rate (nominal minus inflation)	7.86	5.86	8.63	5.39	9.49	8.75

This meant that South Africa's debt servicing has remained extraordinarily high, both in nominal terms and in terms of the real interest rate.

The fact that the nominal interest rate was so high meant that debt accumulated much faster. Had South Africa's interest rates been in the expected ten to 12 percent range between 1994 and 1999 (for a real interest rate of three percent), total debt payments would have been billions of Rand lower and therefore, more money would have been available for social spending.[4] The fact that the real interest rate was so high meant the economy grew much more slowly than might otherwise be the case, especially in those sectors that depended on bank credit rather than equity financing, and as a result, fewer jobs were created. Compounding the problem, those sectors of the economy that were more seriously harmed by the high nominal interest rate, including retail, construction and consumer goods manufacturing, tend to be more labour intensive than mining and heavy industries.

Both the apartheid and post-apartheid South African governments have consistently claimed that the high level of government debt was the cause of the country's high interest rates. Yet, South Africa's government debt, and especially its foreign debt, has been relatively low compared to that of similar countries (see, for example, PBC, 2002:23-25). It was the Reserve Bank's own policy commitments that played a decisive role in keeping the interest rates so high and therefore contributing substantially to the debt build-up, and especially, their commitment to maintain the value of the Rand. The Mundell-Flemming thesis suggests that a country could simultaneously pursue only two of the following: an independent monetary policy; stable exchange rate and free flow of capital (O'Brien and Williams, 2004: 229). Prior to the early 1990s, significant capital controls were in place but they were gradually lifted as part of the economic transition process. By committing to a stable (and fairly high) exchange rate while liberalizing capital flows, the Government of South Africa sacrificed the possibility of an independent monetary policy that might have served domestic interests, especially in the 'real economy'

[3] Nominal interest rate calculated from South African Reserve Bank, *Statistical Tables, Capital Markets* (1997, 1998, 2000). Consumer price index calculated from Statistics South Africa, *Key Indicators, historical*; 1994 value from http://investintaiwan.nat.gov.tw/en/env/stats/cpi.html.

[4] It is very difficult to calculate the precise amount the debt would have been reduced, but a crude calculation of debt servicing on 1994's debt of R237,324 suggests an additional R7 billion in carrying costs on the debt as a result of the 6 percent real interest rate rather than 3 percent. By the end of 1996, the additional carrying costs would have amounted to nearly R22 billion.

of jobs, wages and basic consumption. Maintaining the external value of a currency could be achieved at a cost of lower exports, higher unemployment and slower debt repayment (Mundell, 1963: 477-478). After the mid-1990s, when nominal debt grew due to the absorption of the debts of the so-called homelands, high interest rates played a much more significant role in the continuing high level of indebtedness than any dramatic new borrowing.

Fiscal policy and debt

In its final years, the National Party government boosted spending on security and basic services, the sticks and carrots that maintained the late-apartheid state. The result was a persistent deficit and growing debt. The 1993 report of the Macro-Economic Research Group (MERG) noted that:

> since the early 1980s, the state has experienced a fiscal crisis as the wealthy resisted further taxation and the majority resisted both taxation by an unrepresentative regime and expenditure cuts. The military and administrative costs of apartheid escalated, and the option of foreign borrowing was no longer available. This fiscal crisis, which was also due to financial mismanagement, was a factor in making the old regime unsustainable. Any similar crisis in the future will jeopardise the ability of the government to achieve a new economic, social and political structure (MERG, 1993: 21).

The new democratic government revised fiscal policy to reverse the spendthrift ways of the outgoing government, aiming to reduce the annual deficit and to begin paying down the accumulated debt. The deficit was moderate at R36.278 million in 1996 and R37.021 million in 1997, but declined dramatically to R10,495 million by 1999 (all amounts are in constant 2000 Rand). As a proportion of GDP, government spending fell from 34% in 1994 to below 31% in 1995 and 1996, before rising gradually to 33% by 1999.[5] In other words, the Government of South Africa charted a very conservative fiscal path despite its mandate to redress the legacy of apartheid and improve the material conditions of previously disenfranchised South Africans. Social policies were de-racialized, but at much lower levels of coverage and benefit than previously had been enjoyed by white South Africans.

What this meant was that monetary and fiscal policy began to operate in opposite directions vis-à-vis South Africa's debt, with the tight monetary policy making it necessary to adopt an ever-more deflationary fiscal program. The tight fiscal stance that had been visible from the beginning of the ANC tenure in government was strengthened with the announcement of GEAR. GEAR referred to the scenario of self-defeating macro-economic populism to claim that tight fiscal policy was the only plausible strategy:

> An expansionary fiscal strategy could be considered. However, even under the most favourable circumstances, this would only give a short term boost to growth since it would reproduce the historical pattern of cyclical growth and decline. Increased growth above 3 percent would be choked off by a rising current account deficit, upward pressure on real wages and curtailment of investment plans. Higher fiscal deficits would also lead to higher inflation and higher interest rates, exacerbating the burden of interest payments on the fiscus. More importantly, in the

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[5] Gross Domestic Product from SARB, *Statistical Tables, National Accounts* (2000, 2006). Government spending from SARB, *Statistical Tables, Public Finance* (2001, 20006).

> present climate of instability a fiscal expansion would precipitate a balance of payments crisis. Without attention to more deep-rooted reforms, there is no possibility of sustainable accelerated growth.

Paying down the debt was prioritized as the top budget priority, for example in his first budget speech, when ANC Finance Minister Trevor Manuel said:

> The first charge against government revenue is interest on government debt. The bigger our deficit, the more we have to borrow, the higher the interest bill and the less money there is available to invest in social development, in poverty relief and in the development of our human resources. It is for this reason that reducing our debt burden is important. It is important because it will free up the resources we need to create a better life for all (Manuel, 1997).

After the announcement of GEAR, deficit to Gross Domestic Product (GDP) ratios dropped dramatically, from 4.6% in 1996 and 1997 to 1.2% in 1999.[6] Indeed, the government repeatedly ran surpluses in its current expenditure before debt servicing to make sure that the debt did not build up further. This underscores the serious costs associated with the high interest-rate policy.

According to GEAR, "[i]nternational experience *confirms* that it is on the expenditure side that the fiscus is most effectively able to contribute to redistribution" (Government of South Africa, 1996, p. 10). But, the government argued, the high debt level prevented the government from contributing very much to redistribution through spending. A further brake on the possibility of a more reflationary economic program was the commitment to cutting taxes, especially corporate taxes and income taxes on higher earners. The government argued that raising taxes was not a route to redistribution since it could choke off growth, and therefore, the GEAR program restricted the scope for taxation to twenty-five per cent of government revenue or less. In practice, tax revenues fell to about 24.1 percent, although they began to rise and were expected to reach 25 percent in 2006-2007 (PBC, 2002: 25; PBC, 2005: 43). The incidence of tax increasingly fell on consumption, taking the country in a somewhat regressive direction, while primary corporate taxes fell from 48% to 30% in 1999 (Bond, 2004: 48). This stance made it quite clear who was to bear the costs of debt servicing – those who had expected to benefit from the end of apartheid through improved welfare provisions. Instead, the tendency of government policy was to maintain the economic position of those who had benefitted most from apartheid-era restructuring in favour of whites and white-owned capital. Although to some extent, the ranks of wealthy investors expanded to include a small cadre of Blacks, most South Africans saw their day-to-day living conditions improve little (Southall, 2004; Marais, 2001).

Despite the contradictory nature of macro-economic restructuring in terms of the overall debt situation, the spectre of debt was prominently cited as a rationale for GEAR. By the time of the government's ten-year policy review, macro-economic restructuring was perhaps the government's only real economic policy success. Notably, however, in the original GEAR document, deficit and debt reduction was not listed as an objective in itself, but rather a means to meet a series of objectives like growth, higher investment and export competitiveness, and employment creation, none of which were much in evidence at the time of the ten-year policy review (GSA, 1996: 1-2). The spectre of debt became an increasingly

[6] Annual debt compiled from SARB, *Statistical Tables, Public Finance* (2000, 20005). Gross Domestic Product compiled from SARB, *Statistical Tables, National Accounts* (2000, 2006).

important explanation for the macro-economic restructuring framework, even though the framework actually had a contradictory impact on the country's debt situation. The tale was spun that the debt was a reason for GEAR, rather than a *post hoc* rationale for the program.

The campaign against apartheid debt

South African civil society's campaign against apartheid debt picked up the government's tale that the previous state's profligate ways were the cause of low levels of social spending in the 1990s, and attempted to turn the scenario around by arguing for the repudiation of the debt itself. Later, the focus turned away from debt repudiation and towards proposals for reparations to be paid by those corporations that had profited by lending money or supplying products and technology that facilitated the human rights abuses of the apartheid regime. Overall, the campaign served the valuable role of interrupting the smooth narrative of a mutually beneficial partnership between liberation forces (and the poor majority) and business interests, each of which had suffered under the statism of apartheid. But it also seemed to reinforce the perception that accumulated debt from the apartheid era was a major cause for the government's low levels of spending on basic services for the majority. In so doing, it may have masked the way in which the government was using the spectre of debt to mask its commitment to introducing a neo-liberal restructuring program.

As the millennium approached, the global Jubilee Debt Initiative, which called for the cancellation of all foreign debts for poorest countries, began to gather steam. As early as 1997, South African activists initiated their own associated campaign, calling for the cancellation of South Africa's apartheid debts and for reparations to be paid by those in the business community who had profited from the suffering of black South Africans during the apartheid era, noting that their suffering was prolonged as a result of the international community's support for (and propping up of) the racist government. In its testimony to South Africa's Truth and Reconciliation Commission (TRC), the Alternative Information and Research Centre argued that South Africa's apartheid-era foreign debts should be treated as "odious debt" and repudiated. "Writing off the apartheid debt … is the most significant and meaningful step that could be made in making reparations to all the victims of apartheid and not only to the few who were able to make representation to the TRC" (AIDC, 1997). Noting the critical role of Swiss, German, British and American bankers in sanctions-busting, organizations like the Coalition Against Apartheid Debt and Jubilee South Africa argued that the firms should not profit from apartheid debt, and indeed, should pay reparations to those who suffered as a result of the loans. A 1999 letter to the Swiss President explained:

> We, a broad coalition of civil society organisations, the people of Southern Africa, strongly renew our call for the cancellation of all outstanding apartheid debt, compensation from apartheid's creditors for the immoral profits that were made, and reparation for the destruction caused by apartheid throughout the region. Now is the time for those countries that profited from apartheid to end their odious profiteering and make reparations for the suffering they made possible. The victims must not pay twice for apartheid.
>
> … The apartheid debt is an odious debt, a debt that was incurred by an illegitimate regime for the oppression of the people of South Africa and the destabilisation of its neighbouring states.
>
> Democratic South Africa cannot be expected to repay this debt. Those who financed apartheid repression must now pay for the risk they were willing to take by supporting the apartheid

> regime. … Those who ignored the international sanctions against the apartheid regime and benefited from investing in apartheid cannot now be allowed to continue to profit from their odious dealings (Jubilee 2000 South Africa, 1999).

The anti-debt coalition thus invoked the international campaign against Third World debt and the Doctrine of Odious Debt together with campaigns for reparations by groups that had suffered grievous human rights violations while private firms had profited at their expense, such as the demands of African-Americans for reparations for their ancestors' enslavement, as well as the compensation paid to victims of the Holocaust and their families by Swiss Banks for the latter's appropriation of some of their deposits, as well as collusion with and profit from the Nazi regime. It was, therefore, an intuitively appealing campaign, one that was relatively easy to popularize both inside and beyond South Africa.

South Africa's anti-apartheid-debt campaign was an interesting and innovative way to raise critical questions about the role of foreign creditors in perpetuating an authoritarian regime that systematically violated its citizens' rights. The case was especially apparent for post-1985 creditors, who had played a critical role in allowing the apartheid regime to remain in power at a time when international sanctions were in place. Not only did continuing access to foreign credit facilitate the continuation of the regime, but the creditors also profited handsomely by charging a premium on loans to compensate for financing the illegitimate regime (Ashley, 2003). In addition, the Jubilee South Africa and other anti-debt campaigns emphasized the critical role parastatal (state-owned corporation) and private sector debt played in keeping apartheid going during the 1980s and effectively evading the governmental sanctions then in place – thus reminding South Africans and global public opinion of how deeply capital had been implicated in apartheid, a historical legacy that had became rather inconvenient by the 1990s (Tsele, 1999: 19). And by linking South Africa's apartheid-era debts to those contracted by other countries in the region, some of them as a result of the continuation of the apartheid state, Jubilee South Africa highlighted the sacrifices of its neighbours at a time when few were remembering that many in the region had made sacrifices during the fight for South African liberation (see, for example, Hanlon, 1998).

Moreover, the public airing of the debt issue in the late 1990s revealed how the latter years of apartheid government had been funded – largely through domestic sources like banks and insurance companies that were forced to hold government bonds – and how this strategy gradually spread the beneficiaries to a much broader population of pension-fund holders (Eveleth, 1998). Notably, the South African government's debt obligations grew significantly when the civil servant pension plan was switched from a pay-as-you-go program (ie employees currently paying into the program finance the pension payments of those who have already retired) to one that would be fully funded in advance (Naidoo, 1997). The change meant that pensions would be paid out of investments made by the fund, to be administered by the Public Investment Commission, requiring an enormous capital base (Eveleth, 1998). The government had to borrow from itself in order to create the fund, which meant the it was, in effect, paying itself interest (AIDC, 1997). As much as forty percent of the government debt payment went to support the creation of this government institution, in pursuit of a policy that many anti-debt campaigners felt was unnecessary since most governments use a pay-as-you-go approach, especially when populations are young and growing. The campaigners argued that the pension plan could revert to its previous funding formula without any real risk to current or future pensioners, freeing up 8-10 billion Rand each year for investment in basic services and income grants for the poor majority as well as short-term job creation (for example, in the construction sector).

Much of the more detailed analysis of the sources of apartheid debt was too complex to be highlighted by the campaign, however. The dominant public message was that apartheid debt was held predominantly by foreign creditors, was unethical and should be repudiated. Thus the critique of the government's strategy of continuing to pay the apartheid debt actually reinforced the government's claim that the apartheid government's debt and deficits were a serious problem that called for drastic measures – thus justifying the government's stringent macro-economic policies. Brian Ashley, Director of South Africa's Alternative Information and Development Centre, argued that:

> The reluctance of the government to challenge the apartheid debt and negotiate its cancellation with its foreign creditors had much to do with the development paradigm and economic strategy it had adopted. Since GEAR depended so heavily on attracting foreign direct investment and appeasing the markets the government was opposed to taking action on debt for fear of 'upsetting the markets.' It also did not wish to jeopardise the responsible roles it had been given in the IMF and World Bank.
>
> Dialectically of course the neoliberal development strategy adopted by the government can equally be seen as a consequence of the debt it had inherited. The sheer scale of the apartheid debt helped convince wavering ANC leaders that belt tightening and fiscal restraint should be the order of the debt. A series of compromises made during the negotiating period and especially in 1993 at the economic level served to open the way for the ANC government's shift to neoliberal and pro-globalisation policies (Ashley, 2003).

Though the tone was quite different from the way the government has presented the issue, the content was effectively the same. Regardless of its merits in terms of identifying and attempting to hold to account transnational corporations that failed to support the international sanctions initiative (and therefore at least implicitly collaborated with the apartheid government in human rights violations), the campaign seems to accept the current government's discourse on debt as an apartheid era problem that its current policies were designed to resolve. Although activists associated with the anti-apartheid debt movement critically examined the economic restructuring program as a continuation of apartheid-era monetary policies, the message did not come through in the popular campaign: the threat of debt was largely presented as a reason for neo-liberal policies rather than a rationale. The erroneous implication would be that once apartheid debt was eliminated, the government would be free to chart a new economic restructuring course, one that would better serve the needs of the majority of South Africans. This has been precisely the recent message of the government, except that the new course has been so shaped by the previous neo-liberal restructuring that many of the norms and patterns established during the first decade of majority rule have limited the economic options available today and foreclosed many options for redressing the needs of the majority for the foreseeable future. In this context, the promise of more government spending on basic programs appears destined to consolidate neo-liberal restructuring rather than to remake it. The campaign failed to present effectively the role of post-apartheid economic policies in contributing to the debt build-up. Thus, the campaign limited much of the debate to whether apartheid-era foreign debt should be cancelled or not, and if so, under what terms. Indeed, the South African Communist Party (SACP) suggested that Department of Finance Director General Maria Ramos was able to sideline serious discussion of domestic debt and debt-servicing reduction by focusing on the campaign's emphasis on apartheid loans as foreign debt (SACP, no date). Moreover, by focusing so much of the public face of the campaign on the foreign component of the debt, the campaigners may have downplayed opportunities to reduce the financing burden on the domestic side.

Reparations for apartheid

The question of reparations payments for the victims of apartheid has continued even as the campaign for debt cancellation has begun to fade. For the most part, the Truth and Reconciliation Commission (TRC) focused on crimes of the state or explicitly political actors as individuals. Victims of such violence, or their survivors, were entitled to some reparations paid by the South African state, though the amounts have been relatively small, amounting to less than $5,000 per person. The matter of corporate complicity with apartheid crimes was addressed only to minor extent in the Truth and Reconciliation process: domestic corporations received some attention the hearings, with all firms that operated in the profitable South African market during apartheid seen as perpetrators of systemic human rights violations, though there were no findings of individual culpability among members of corporate boards of directors or managers. Due to the perception that the private sector systematically benefited from apartheid, the committee recommended a corporate wealth tax to provide restitution to those who had suffered for the profit of others (Nattrass, 1999).[7] The TRC tax proposal was rejected by the government, which did establish a “President’s Fund” for victims of apartheid to which individuals and companies could make voluntary contributions.

The TRC hearings did little to put the question of the relationship between private sector profit-making activities and the depredations of apartheid to rest. In particular, foreign investors during the apartheid era continue to draw significant attention from South African campaigners. In 2002, Jubilee South Africa with the Khulumani Support Group launched a lawsuit in the US courts against for reparations to be paid by a list of twenty major transnational corporations to South Africans who suffered especially grievously during the apartheid era and whose suffering could have been prevented had the companies not financed the regime’s ongoing human rights violations (Apartheid Debt and Reparations Campaign, 2002). The lawsuit was especially aimed at foreign corporations that provided products and technology that enabled the apartheid state to maintain its internal security apparatus: computer firms like IBM that supplied computers to implement the pass system; auto manufacturers that sold armoured vehicles used to patrol the townships, arms manufacturers and oil companies that violated the embargo, banks that provided the funding. The original Khulumani lawsuit, as well as one launched by US lawyer Fagan on behalf of several South African clients, was thrown out of course in late 2004 although an appeal process began in January 2006 (Reynolds, 12-23-04; Leroux 02-15-06). In terms of international publicity, though, the lawsuits kept the issue in the public mind. Throughout the process, the Government of South Africa has remained staunchly opposed to the lawsuits.

Although the earlier campaign focus of the campaign against apartheid debt tended to reinforce the notion that apartheid necessitated the post-apartheid neo-liberal economic program, the lawsuit shows how far apart the campaigners remain from the government. The government’s priority, at the end of the day, is to attract and retain foreign investment, especially foreign direct investment. Their strategies on monetary and fiscal policy must be seen in this light, although given their failure to deliver, they appear to have been based on false premises. The government’s hostility to debt cancellation and reparations lawsuits similarly must been seen as based on a fear that a mobilized public that actively presses rights

[7] The TRC also recommended canceling foreign debt from the apartheid era.

claims in public discourse and the courts may prevent foreign capital from investing. At the end of the day, the apartheid debt and reparations campaign pose a threat to the objectives and discourse of the government, although in the case of the debt cancellation campaign, they do so in a way that ultimately reinforces aspects of the status quo.

The People's Budget Campaign

The People's Budget Campaign (PBC) was initiated in 2000 as a joint project of the Congress of South African Trade Unions (COSATU), the South African NGO Coalition (SANGOCO) and the South African Council of Churches. Its roots were in the Anti-Poverty Meetings of 1997; similar approaches have been developed in a number of countries since the inception of neo-liberal restructuring, ranging from Canada to India to Malaysia as well as many urban centres, most notably Brazil's Porto Alegre. The overall objectives of the process are to show that even in a context of debt and deficit-avoiding balanced budgets, more spending options are feasible that better support the needs of the majority. South Africa's campaign sought to encourage the government to adopt policies that met basic needs, especially through public provision and resources; created and retained quality jobs; helped the majority acquire assets and skills; supported democratic, participatory governance; and protected the environment (PBC, 2005: 1). The Women's Budget, which began in South Africa a few years earlier, has similar but gender-based objectives and operated as an independent initiative (Budlender, 2000). Like the women's budget, the People's Budget Campaign used the government's annual budget announcement as an opportunity to engage in a dialogue both with the government, and within civil society, about the government's overall policy direction. The PBC has been associated with broadening the scope for democratic participation in policy-making.

The basic orientation of South Africa's People's Budget Campaign, like all similar initiatives, is to demonstrate that fiscal prudence need not imply cuts to the basic services that the poor depend upon. Thus it rests on two observations rooted in the neo-liberal era. One is that concern about budget deficits and debt crises need not be the provenance of the political right – that the left needs to be equally concerned, because a debt crisis may lead to loss of (the possibility of) popular control over national economic policy and because debt servicing soaks up large amounts of funds that then appear in the profit statements of debt-holders (banks) rather than in services for the poor. The second is that fiscal austerity need not be borne primarily by the poor – the fact that it has been reflects either an ideological commitment to concentrating wealth in the hands of a few in order to promote investment, or a certain amount of political opportunism, rather than any inherent necessity associated with fiscal responsibility.

Importantly for our purposes, the PBC has presented several proposals to raise more financial resources and redirect existing government spending that bear discussion. One is moderately raising taxes to as much as 27 percent of GDP. A second is to restructure the tax system to make it most progressive, notably by restructuring the national sales tax (the Value Added Tax, VAT) to make more basic goods exempt while raising the rate on luxury goods, while increasing income and corporate taxes as well. And finally, the PBC has proposed refinancing government debt originating in the apartheid era to reduce the servicing costs and permit more tax revenue to be used for current needs. This included the way the Government Employees Pension Fund is financed.

Perhaps most critically, the PBC called the government and allied business-oriented social commentators on the repeatedly raised 'spectre of debt':

> It is questionable to assert that South Africa faces a 'debt trap'. Generally, the phrase 'debt trap' refers to a country with an unsustainable foreign debt, particularly when the burden of servicing the debt catastrophically restricts socio-economic development. South Africa's foreign debt is very small by international standards, and easily serviced from current export receipts. Furthermore, South Africa's domestic debt is not particularly large by international standards. Rapidly growing countries like Malaysia and Singapore have much higher debt levels (relative to national income), and most industrialised countries have significantly higher ratios of public debt to national income than that of South Africa. …
>
> In spite of South Africa's relatively low debt levels, South Africa's debt burden is relatively onerous by international standards. This paradox is explained by South Africa's interest rates, which are higher than those of any industrialised country and among the highest in the world. Because of high interest rates, relatively low debt levels impose a severe debt burden on society. …
>
> As a result, debt policy hampers employment growth, sharpens the sting of poverty, and undermines social welfare. The combination of reduced government expenditure and restrictive monetary policy has a contractionary impact on the economy, stifling job creation… In a market-oriented economy, public expenditure is the most effective mechanism for poverty alleviation and welfare enhancing economic redistribution. The government's current debt policy neutralises these instruments, allocating scarce resources to policy supported high interest payments while failing to mobilise resources through further borrowing to fund social imperatives (PBC, 2002: 23; 25).

The PBC proposed a policy of 'ring-fencing apartheid debt,' which meant to identify and isolate borrowing that was associated with maintaining apartheid in its dying years and forcing those creditors to accept a special bond issue at a more moderate rate of interest. Noting that all non-interest expenditure since 1994 has been financed through taxation and that any borrowing has been used only for debt servicing, the PBC argued that "the interest burden that South Africa now bears is entirely a legacy of apartheid" (PBC, 2002: 27). The proposals address the fact that most of South Africa's apartheid debt is domestically held and often in pension funds that widely diffuse the benefits of holding the debt – those who hold the debt today are not necessarily those who benefitted from past apartheid policies. Included in this debt restructuring strategy was a proposal to restructure the Government Employees Pension Fund to reduce its size, free up resources for social spending as needed today, and use future tax revenues to top of the fund if needed in the future.

The campaign has attempted to increase the chance that its input will be heard by adopting the discourse of government to some extent, even as it challenges the government's overall economic restructuring framework. Few of the specific proposals are actually new, but they were reworked and represented in a way that challenges the government's elision of its macro-economic strategy with the need to tame the spectre of debt. Moreover, the timing was helpful – the PBC really got under way early in the new millennium, at a time when even the government and the ANC leadership were acknowledging that GEAR-associated economic restructuring was not delivering the goods even on its own terms, much less to the ANC's voting constituency and indeed was inspiring considerable hostility (PBC, 2002:7). In 2005, the campaign listed a number of shifts in the government's program that it believed could be at least partially attributed to the campaign (or at least reflected recommendations of the PBC), notably: a moderately expansionary budget and increased deficit spending; reduced tax cuts; some movement towards free basic services and a commitment to free anti-retrovirals (for people with HIV/AIDS); and some movement towards a basic income grant (in the form of the Child Support Grant) (PBC, 2005: 2). Nonetheless, experience to date (for example, COSATU's participation in the tripartite National Economic Development and Labour Council, NEDLAC) has shown that putting forward reasonable proposals in the format preferred by the government does not necessarily mean those proposals will be taken seriously, even if the government says it is adopting them. Anti-retroviral roll-out, for example, has been extremely slow.

Recent policy changes and the spectre of debt

Since the 1999 elections, there have been two significant changes in South Africa's macro-economic program that reconfigure the debt situation, at least to some extent. The first, somewhat less noted but probably more important change, has been the adoption of a new monetary policy regime in 2000 with the succession of Tito Mboweni to the Presidency of the South African Reserve Bank. Although Mboweni has not repudiated the general anti-inflationary thrust of central bank policy, he abandoned the simultaneous pursuit of eliminating inflation and maintaining the external value of the Rand (overvalued Rand) for inflation targeting, an approach that has been adopted by a many Western central banks and a number of larger developing countries as well, including Chile, Brazil, the Czech Republic and Poland (Mishkin, 2000). South Africa's inflation rate and therefore nominal interest rates have begun to come down (from 16 percent in 1996 to 13 percent in 2000 and just over 9 percent in 2003).[8] Although the country has not avoided "contagion shocks" entirely such as those accompanying the Argentina crisis of 2001 and fears associated with the disintegration of Zimbabwe, the shocks did not appear to cause serious new problems for the economy.

The lower interest rates promise two benefits for the South African economy: slower accumulation of debt (since debt servicing costs should fall, with government bonds paying lower interest rates, as long as inflation does not rise) and a better chance at domestically-led economic recovery, since consumer credit costs, housing bonds and small business loans will have lower carrying costs. Although one can argue that since the real interest rate hasn't declined much (it fell to 1.26 percent in 2002 and 3.34 percent in 2003, but then soared to nearly 7 percent as inflation rose in 2004[9]) the benefits of the lower interest rates will be minimal. But a prime borrowing rate of between nineteen and twenty percent or more appears to imply a psychological barrier that a loan at eleven percent interest does not (data from SARB, 2006). Moreover, we should be clear that the approach still carries the risk of high nominal interest rates any time inflation seems to be rising, but rates still appear to be lower than when the SARB sought both to contain inflation and keep the value of the Rand high.

The second – and more noted – change has been in government fiscal policy, specifically, a new commitment to a moderately expansionary fiscal regime, beginning roughly with the 2002-2003 government budget (AfDB/OECD, 2003: 283). These changes involve some more social spending and capital spending on schools and other social infrastructure but also tax cuts, especially for small

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[8] SARB, *Statistical Tables, Capital Markets* (2000, 2001, 2006).

[9] Calculated as the government bond rate minus the inflation rate. Government bond rate from SARB, *Statistical Tables, Capital Markets* (2000, 2001, 2006). Inflation rate from Calculated from Statistics South Africa, *Key Indicators, historical.*

business, investors and middle-class employees. Budget figures need to be read with a grain of salt, since provincial and local governments have often failed to spend their allocations, but efforts also have been made to improve their delivery capacity that may, at some point, result in improved service delivery.

It is important to note that these changes do not imply a fundamentally new direction, but rather, a change in degree such that the new approach is less doctrinaire and more solidly based on (moderately) successful strategies developed elsewhere. The 'spectre of debt' narrative, which claims that government economic policies are being modified because they succeeded, not because they failed, continues to be an important part of South Africa's political official discourse. Undoubtedly, the continuing political need for this narrative reflects the ANC's own concerns that it is becoming increasingly difficult to ignore its voting constituency's demands that their concerns be prioritized ahead of those of large firms. Yet the changes are more of degree than approach and leave the basic framework intact. Moreover, they come after a decade of concerted neo-liberal economic restructuring that has already fostered significant structural change in the economy. Trade-liberalization and industrial restructuring strategies, which took every opportunity to expose South Africa's weak and over-protected industries not only to the harsh winds of the global marketplace but also to full competition from subsidized imports into South Africa, led to the absolute destruction of entire industries that might have been able to survive a phased liberalization process and consequent loss of jobs. Other contentious neo-liberal-inspired policies such as privatized, public-private partnership and full-cost-recovery-basis delivery of basic local services continue to impose enormous burdens on the impoverished majority, and job creation remains extremely weak, with expansion primarily in the unprotected informal sector and short-term government works programs. Although the official story is that the government slayed a looming debt crisis, the legacy of the spectre of debt in South Africa nonetheless remains an unhappy one.

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