

## The Politics of Economic Policy-Making: Substantive Uncertainty, Political Leverage, and Human Development

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2004 coincides with the tenth anniversary of South Africa's democracy. There have been many assessments of this first ten years of post-apartheid South African democracy. And there will be many more to come. But perhaps the most notable one is the president's annual State of the Nation address, delivered in February at the opening of parliament, which focussed on and served as a self-review of the ANC government's performance. At one level, it was a magnificent speech in particular because the president resisted what would have been a natural inclination to electioneer. Instead, in true statespersonlike behaviour, he delivered a presidential rather than a party leader's speech, which reviewed government's performance over the decade and emphasized the importance of reconciliation and transformation as mechanisms to facilitate nation-building, peace and democracy. Of course the President did put a positive gloss on government's performance. This was not only expected, but was in many cases fair. The issue that raised eyebrows, however, was the president's claim that he did not see the necessity for any policy shifts. The failure of poverty alleviation and development, and the inadequacy of service delivery, was in his view, a result of poor implementation rather than policy failures as such (Mbeki 2004b).

The president is not alone in this view. It is essentially the message of government as a whole and is reflected in both the presidency's review of the first decade of South Africa's democracy (PCAS 2003), and the series of presentations of the synthesis report of this review, presented by Joel Netshitsenze to a variety of forums and stakeholders within society.<sup>2</sup> The review emphasizes the delivery record of government. It provides empirical evidence demonstrating that 1 985 545 housing subsidies have been approved to a value of R24, 22 billion (p. 25), new water connection benefit 9 million people (p. 24), electricity connections had extended to 70 percent of households by 2001 (p. 25), 1.8 million hectares of land have been redistributed since 1994 (p. 26), and 1 600 633 new jobs have been created (p. 36). The review also maintains, that if these social provisions are taken into account, then poverty rates have declined significantly in our society (p. 17-18). However, it also admits that unemployment has gone up in this period, a result of new entrants to the labour market exceeding the number of new jobs created. And it recognises that delivery has been most significant in arenas where the state has retained predominant control. But the overall message is that government has delivered as best as was possible. Its performance was phenomenal given the adverse conditions in the global economy. The tight fiscal reign was part of a far-sighted strategic manoeuvre to stabilise finances so that increased spending on social expenditure could be realised when this had been achieved (pp. 31-33). The first ten years, the review maintained, was a good start to transforming South Africa in the interests of all of its citizens.

Is this a fair assessment? The ANC government has without doubt passed a significant amount of legislation – the Labour Relations Act, the Equity legislation - that is progressive and addresses the inequities of South Africa's past. If one couples these with the country's rights based constitution, one is obliged to conclude that today South Africa is a far better place than it has ever been. But is apartheid an appropriate yardstick by which to judge South Africa's progress. After all was not apartheid described as a crime against humanity? How can it then be described as a reference point for South Africa's democratic transformation? Are not the aspirations of the liberation movement, encapsulated in the *Freedom Charter*, the *Azanian Manifesto*, and the *Ten Point program*, or the comparative experience of other African countries in their first decade of decolonisation<sup>3</sup>, more legitimate reference points to assess South Africa's political and socio-economic progress?

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<sup>2</sup> This presentation, for instance, was made to diverse constituencies, from on the one hand the Board of Anglo-American, to on the other, academics, both from South Africa and the continent, through a conference hosted by the Africa Institute on March 24-26, 2004.

<sup>3</sup> Adebayo Olukoshi, the General Secretary of CODESRIA, the premier social science body on the continent, made this point explicitly at the Africa Institute conference in March 2004, suggesting that in terms of economic growth and the realisation of human indicators, South Africa's performance lagged far behind that of its neighbours at the end of the first ten years of their founding democratic elections.

When these programmatic collective aspirations of the liberation movement or the comparative experiences of other Sub-Saharan African countries are used as a political compass, then what is noteworthy is the conservative character of government's macro-economic programme, which is located at the heart of its policy ensemble. This program, known as the Growth Employment and Redistribution Strategy (GEAR), has, as has been argued elsewhere, not only had negative consequences for poor and marginalized people in South Africa, but it has also compromised the outcomes of the raft of other progressive legislation (Habib and Padayachee, 2000; Daniel, Habib and Southall, 2003; UNDP; 2004). Government is correct to note that it has built 1.6 million houses, supplied water to 9 million people, sanitation to 6.4 million, and created 2 million jobs (Mbeki 2004). However, what it is neglecting to inform the citizenry of is the fact that as much as people have been connected to water, so have millions of people been cut off from water. As much as millions of people have been connected to electricity, so have millions of people been cut off from electricity.<sup>4</sup> As much as millions of people have been connected to telephony, so have millions of people been cut off from telephony. As much as jobs have been created, so too have millions of people been thrown onto the unemployment lines. The 2003-2004 edition of the *State of the Nation* concluded that the combination of progressive policy in some arenas and a conservative macro-economic policy on the other has led to the deracialisation of the apex of South Africa's class structure. Black professionals and entrepreneurs have particularly benefited, but poor and marginalized people are really struggling. President Mbeki has often spoke of two nations and two economies in South Africa, and the need to transcend this dichotomy. But the editors' conclusion was that the policies of his government would not lead to this. Instead it will lead to the deracialisation of the first nation, while leaving the second exactly where it currently is: marginalized, poor and overwhelmingly black (Daniel, Habib and Southall 2003, p. 20).

This is borne out by the figures. The United Nations Development Program (UNDP) reports in a recently released study that the country's poverty rate has reached a staggering 48 percent (UNDP 2004). The Presidency, of course, contested this conclusion in a harshly worded response. But most independent commentators were not surprised by the UNDP's conclusion. After all, the Taylor Commission for the Department of Social Welfare estimated the country's poverty rate at a staggering 45 to 55 percent. It suggested that 10 percent of African people are malnourished, and 25 percent of African children are born stunted (Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa 2002, p. 225-276). Statistics South Africa (SSA), through its most recent census, estimated the unemployment rate to be at 41.6 percent (Statistics South Africa 2003). Most independent studies suggest that while the inequality level between white and black has been decreasing, the gap is widening within the African population and the country as a whole.<sup>5</sup> These statistics are horrifying. If they had occurred in any country of the industrialised world, a state of economic emergency would have already been declared and governments would have fallen. In South Africa, however, not only has this not happened, but it is has been difficult to get public institutions to recognise the enormity of the problem. Note, for instance, the fact that the South African Reserve Bank has only the reduction of inflation as its explicit mandate. No mention is made of unemployment. Yet its counterpart in the United States, the Federal Reserve, has employment creation as its explicit aim stipulated within its charter even though the unemployment level in that country stands in the region of a mere five percent (Stiglitz 2003, p. 82).

So why did government adopt such a conservative macro-economic stance? There are currently two broad explanations. The first, preferred paradoxically by both the far left and right, focuses on state elites. For the left, they are believed to have sold out (Bond 2000). For the right, they are believed to have finally seen sense.<sup>6</sup> Both explanations are deficient because of their assumption of a homogeneity of thought and behaviour among political elites that simply cannot be there, especially in a transitional

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<sup>4</sup> David McDonald, for instance, estimates that water and electricity cut-offs have impacted on some ten million people respectively, while another two million people have suffered through being evicted from their homes (McDonald 2002; see also Coalition Against Water Provision, Anti-Privatisation Forum, Public Citizen, 2004). Note, however, that the Department of Water Affairs and the Presidency have contested these numbers.

<sup>5</sup> Note, for instance, that the *Sunday Times* (9 May 2004) reports that South Africa's super-rich – those with assets more than \$30 million – has jumped from 150 in 1994 to 600 in 2004. This, in a period when the share of national income of South Africa's more marginalized has decreased dramatically.

<sup>6</sup> This has been the steady diet of any one of a number of business newspapers and magazines. For just one example, see Abedian 2004.

society where there has been such a significant turnover in public service representatives and state personnel. But perhaps an even more serious criticism that can be levelled at these explanations is a methodological one, namely their almost exclusive focus on agents and actors. Advocates of these explanations have not internalised, and as a result do not recognise, that individuals, parties and movements are constrained in their choices by their institutional locations and the balance of power. In the celebrated words of Karl Marx's maxim enunciated in *The Eighteenth Brumaire of Louis Bonaparte*: "Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly found, given and transmitted from the past" (Marx 1972, p.437).

The second explanation, and the one I prefer, suggests that the balance of power in the global and national arenas was unfavourable to poor and marginalized citizens, and as a result it made sense for state elites to make the choices they did. According to this view Mbeki and other state elites confronted two diametrically opposed sets of interests with contrary policy choices. The first, foreign investors and the domestic business community, advocated neo-liberal economic policies – privatisation, deregulation, financial and trade liberalisation, and low budget deficits. Their leverage: investment (Habib and Padayachee 2000). The second, the broader citizenry demanded poverty alleviation, service delivery, and transformation. Their leverage: the vote. The latter, however, was compromised given the racial structure of party formation and the lack of a viable opposition (Habib and Taylor 2001). In this context, foreign investment served as a more real leverage with the result that Mbeki was prompted to make concessions to the investor community. This of course reflected itself in the adoption of GEAR.

The explanation here has been presented simplistically for explanatory effect. The point to note is that power configurations lay behind the state's adoption of GEAR (Alexander 2002; Habib and Padayachee 2000). Moreover, the shift to neo-liberal economics should not have been surprising. After all, indications were there that this was going to happen at least since the early 1990s. Nationalisation, a cornerstone of ANC economic thinking since the mid-1950's, was abandoned within the first year of the organisation's return from exile. Terminology like 'growth through redistribution', which associated the ANC with a demand-led economic strategy, and suggestions of controls on investors (both foreign and domestic) disappeared in the organisation's policy discourse by 1993. This prompted American academic Martin Murray (1994: p. 24), to observe the fact that the "twin objectives of restoring business confidence and attracting foreign investment seemed to swamp all other considerations" in the ANC's evaluation of its economic policies. Of course, for a year preceding the election, it seemed as if Keynesian arguments had won the day. But this was largely a result of the demands imposed by a looming election, and was abandoned within a couple of months in some areas, and within two years in others.

So where do we stand today? Some, both academics and political activists, have argued that government's economic stance has begun to change in the last three to five years (Padayachee and Valodia 2001). They point to a rise in social expenditure since 1999, and the increasingly progressive noises the president has been making in the last year. Some also note the role of South Africa in establishing the Group of 20, which was so instrumental in preventing an iniquitous settlement being imposed on the developing world at Cancun. Still others point to the president's speeches, which speak about the necessity of linking with social movements outside of the formal multinational forums. And, they contrast this with Minister Erwin's statement after the Seattle protests which was laced with disdain for activists outside of formal political structures. These voices collectively suggest that something new is afoot, even if it is unstated. And, it does seem as if some in the business community tend to concur. Tim Cohen (2004), in an opinion editorial published in *Business Day*, reflects a similar view when he argues that the ANC has lost faith in the business community and is now beginning to pursue a more interventionist state led economic strategy.

So is their change? The left in the ANC definitely believe so (Cronin 2004; COSATU 2004). They suggest that the government is reappraising its position.<sup>7</sup> It recognises that its gamble did not pay off. Therefore there has been a significant shift in the last budget in spending priorities in favour of infrastructural investment, a public works program and increased social expenditure. But others are

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<sup>7</sup> This was the message of ANC Member of Parliament Rob Davies at an IDASA panel discussion in Cape Town in March 2004 where he presented the shift in economic thinking on the part of government, as a rational process in which economic technocrats learnt the lessons from past implementation experiences.

more cynical of these developments. They suggest that 2004 is an election year, and that state elites have always made progressive noises just before an election.<sup>8</sup> There is some truth in this of course. In both 1994 and 1999, similar things happened. COSATU and the SACP were appeased. The policy agenda took a slight shift to the left. The conservative flavour of South Africa's macro-economic stance, however, resurfaced as soon as a respectable time lapsed from the date of the elections. These more pessimistic commentators expect the same to happen in 2004.

But is this a fair reading of the situation? Is it not too cynical an interpretation of developments? My own view is somewhere in between the romantic optimism of the ANC left and the almost resigned pessimism of both liberal and more left-leaning commentators. I believe government is in reappraisal mode, and there is ample evidence for it. The most recent of these is of course President Mbeki's inaugural address to South Africa's third democratic parliament in which he acknowledged that not enough was done for South Africa's marginalized in our first decade of democracy. As a result he laid out a comprehensive set of policies and targets that would facilitate service delivery and address the poverty that so many of South Africa's people are mired in. But he did more. He announced plans that herald a far more state interventionist strategy to regulate the formal economy, and condition its evolution in a direction that would lead to higher levels of employment (Mbeki, 2004a). Much, however, can be read by what was not said. The President remained silent on the rigid fiscal policy, on the commitment on financial and trade liberalisation, on the narrow focus of our monetary authorities on inflation, and even on privatisation. As a result he signalled a contradiction in the state's policy ensemble. Social expenditure will rise, as it has for a number of years, mainly to deal with the devastating consequences of poverty and inequality in what President Mbeki refers to as the 'second economy' (Mbeki 2004a; 2003). But much of the economic policy choices of post-1996 South Africa will remain.

Moreover, it is important to note that the entire analogy of two economies is itself misleading for it assumes the existence of a Chinese wall between the two; the one having nothing to do with the other. This then enables state elites to suggest that the formal economy is doing well and should be left untouched for it is modern, efficient, and internationally competitive. The second economy is seen to deficient, and requires both policy reform and social assistance for its inhabitants. But what if, to stick with the analogy, the policy reforms and interventions of the first economy is what creates the poverty and immiseration of the second? Apartheid of course established two economies; one white and privileged, the other black and disadvantaged. The ANC had as its explicit mandate the transcending of this racial economic divide. Instead, however, the economic and social policies it pursued in the first decade of its rule began the process of deracialising the first economy, while simultaneously increasing the size and aggravating the problems of the second. Current initiatives to increase the social expenditure components of the budget are unlikely to resolve the problem. For as Alec Erwin, South Africa's current Minister of Public Enterprises, and its Minister of Trade and Industry for much of the first two terms of ANC rule, pointed out in 1992, "the ... approach is likely to fail ... even on its own economic terms. It is not a sustainable growth option. It will certainly never meet the most basic aspirations of the broad majority of our country" (Erwin 1992, p. 16). Simply put, so long as South Africa's industrial, trade, monetary and fiscal policies retain their neo-liberal flavour, they are likely to work against the social expenditure components of the budget. This contradiction at the heart of the ANC government's current policy ensemble is unlikely to be sustainably resolved so long as the political environment does not change.

How can it change? An answer to this question can be arrived at by reflecting on why democracies are seen as the best political system to achieve a human centred development program. The essence of democracy is political uncertainty, and it takes two distinct forms; institutional and substantive. Institutional uncertainty - the uncertainty about the rules of the game - implies the vulnerability of the democratic system to anti-democratic forces. Substantive uncertainty - the uncertainty of the outcomes of game - is about the perceptions of ruling political elites in a democratic system on whether they will be returned to office (Schedler 2001, p. 19). The former - institutional uncertainty - is bad for democracy for it raises the prospect of the return to authoritarianism in the Third Wave of democracies. The latter - substantive uncertainty - is good for democracy for it keeps politicians on their toes, and makes them responsive to their citizenry.

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<sup>8</sup> This was the view of Steven Friedman, articulated in the question and answer session of a presentation he made to the Harold Wolpe Lecture series, hosted by the Centre for Civil Society, University of Natal, in November 2003.

There has been much investigation into and reflection on institutional uncertainty. But there is surprisingly little work on substantive uncertainty. Perhaps this should not surprise one. After all much of the preoccupation of the democratisation researchers and activists has been about transcending authoritarian regimes and institutionalising democratic ones (O'Donnell and Schmitter 1986; Huntington 1991).<sup>9</sup> Prospects of reversions to authoritarianism – institutional uncertainties – then, would naturally occupy their immediate attention. But the lack of scholarly reflection on substantive uncertainty has significant political costs. Indeed, the weakness of much of the contemporary democracies lies precisely in this arena. Despite the presence of institutional mechanisms that are intended to promote substantive uncertainty – legislative elections, separation of powers, civil liberties, opposition political parties, independent press – this goal still eludes much of the Third Wave of democracies. Part of the reason for this is the shift in power from the legislature to the executive across the globe in the last two decades. Part of it emanates from the inclination of democratisers and democratisation scholars to not rock the boat in societies undergoing democratic transitions. Fearful of the very real danger of a reversion to authoritarianism, these actors have focussed on procedural aspects of democratisation and made significant political and institutional concessions to the state and economic elites of the authoritarian order.<sup>10</sup> And part of it is a result of the honeymoon phenomenon where citizens are reluctant to vote against liberation parties who were responsible for coordinating the popular rebellions that brought down authoritarian regimes.

These factors, coupled with the economic transformations of the last two decades – the rise of financial capital, the technological innovations that have permitted capital's mobility, the integration of production systems across the globe, the dominance of multi-national corporations – fundamentally transformed the political and socio-economic foundations of developing nations. In essence they transformed the relations of power between different constituents within these societies. The economic transformations enhanced the leverage of the foreign investors by providing them with many different locations for their investment. The leverage of citizens – the vote – was relatively weakened as a result of the political institutional concessions made by democratisers, and the weakening of the legislatures vis-à-vis the executives. This state of affairs prompted governments in the Third Wave of democracies to make policy concessions to foreign investors and domestic capital, even when it went against the interests of their very own citizenry. The result has been the rise of neo-liberal economics, the increasing impoverishment of the majority of the citizenry of the developing nations, and the rise of what some have termed delegative or illiberal democracies (O'Donnell 1993).

South Africa is perhaps the best exemplar of this pattern of events as was indicated earlier. And, the systemic cause of this outcome is the lack of substantive uncertainty in the political system, largely as a result of some of the international developments discussed above, and peculiar contextual factors, such as the racialised (and or ethnic) character of South Africa's principal opposition parties – the Democratic Alliance (DA), Inkatha Freedom Party (IFP) and the New National Party (NNP) – who continue to fish in the shallow electoral pool of minority communities (Habib and Taylor 2001). These factors then ensure that the ANC is not seriously threatened at the polls, eroding thereby the implicit accountability relationship within democratic systems between state elites and their citizenry. The result: economic concessions to the investment community and the imposition of a neo-liberal economic paradigm. The outcome: increasing unemployment and economic inequality making it almost impossible for government to adequately deal with the legacy of poverty bequeathed by Apartheid.

The solution to this state of affairs is the reintroduction of substantive uncertainty into the political system. This will allow the vote to be enhanced as leverage and thereby re-establish the accountability equation between political elites and citizens in South Africa. It won't resolve the problem. But it would complicate President Mbeki's life. Given that he can no longer take his position and ANC rule for granted, he will inevitably be compelled to take the interests and wishes of voters as seriously as he does more privileged stakeholders in society. Every time he is thus confronted with competing interests between the business community and the broader citizenry, he will be forced to make concessions both ways. As Margaret Legum cheekily put it in an intervention from the floor at a recent public meeting of

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<sup>9</sup> The most comprehensive study on Africa in this regard is Bratton and van de Walle 1997.

<sup>10</sup> This was the recommendation of a diverse set of democratisation scholars. For just two examples from different parts of the ideological spectrum, see O'Donnell and Schmitter 1986, and Huntington 1991.

the Institute for Democratic Alternatives in South Africa (IDASA), “the president must be forced to look over his left shoulder as much as he does over his right”.<sup>11</sup>

This conception of South Africa’s strategic imperatives goes against the grain of the dominant thinking among progressives. Indeed, the reigning left-wing orthodoxy is that it is important for progressive forces to coalesce against counter-revolutionaries because South Africa is at a very delicate stage in its democratic transition (Cachalia 2004; Southall and Wood 1999). The strategic aim is thus to establish predictability and prioritise political order. It is this rationale that serves as the philosophical foundation for, and justification of, the continued alliance of the ANC, COSATU and SACP, corporatist institutions like NEDLAC, and the cooperative relations of much of civil society with government. There is perhaps no more eloquent an articulation of this strategic perspective than by the deputy General-Secretary of the South African Communist Party (SACP), Jeremy Cronin, in two separate interviews: the first being the now notorious one with Irish academic Helena Sheehan for which he was wrapped over the knuckles by the ANC leadership, and the second with Adam Habib and Imraan Valodia very soon after the ANC received its overwhelming electoral mandate in the 2004 elections. In the former interview, Cronin explicitly states, “what people don’t realise is that breaking the alliance means splitting all three organisations. You are talking of 2 million COSATU members, more than 80 percent of which are ANC members” (Cronin 2002; Southall 2003, p.65). For this reason it is imperative to remain within the alliance, not only to ensure that the ANC is not handed over to the neo-liberals, but also because it is increasingly becoming possible to win political victories as the shine of the Washington consensus policies begin to erode. This optimism carries through to the more recent interview, where once again Cronin highlights the political possibilities that arise as a result of the contemporary crisis of the global economy. He concludes: “the strategic priority of the day in South Africa is to have a significant political majority capable of spearheading fundamental transformation” (Interview with Jeremy Cronin, 20 April, 2004), which he maintains has the greatest likelihood of being realised through the ANC.

But has not the track record of this strategic engagement not been very positive? Is the predictability facilitated by the strategic choices of COSATU, the SACP and other progressives not the cause of the reinforcement of existing power relations, which fostered the shift to the right in macroeconomic policy in the first place? Is it then sensible for progressive activists and movements to continue to advocate for a strategic perspective that leads to systemic outcomes that undermine their own political and socio-economic programme? Is not substantive uncertainty, which enhances citizens’ leverage over state elites more sensible if one’s goal is a more human-centred development program? Of course there could be much debate on the precise institutional mechanisms that could facilitate substantive uncertainty. Some may maintain that it need only involve electoral reform and the emergence of social movements (Southall and Mattes 2004; Ballard, Habib and Valodia 2004), while others would suggest that it would require the former coupled with the break-up of the tripartite alliance and the abandonment of corporatist institutions (Habib and Taylor 2001, Habib and Desai 1997). All of this could facilitate uncertainty, and this is necessary for loosening up the existing configuration of power in South African society. What is important to note in this debate, however, is that it is immaterial for advocates of uncertainty to agree with a particular social movement or political party. What is important for them is the systemic effect of the viable presence of these movements and parties, which creates uncertainty, and thereby facilitates the accountability of state elites to the citizenry.

To return to the question: when will a sustainable shift in the state’s economic programme occur? The answer: when there is substantive uncertainty reintroduced into the political system. That is the strategic task confronting South African society. Unfortunately this is not what progressive activists have wanted to hear, at least not in an election year. But so long as the realisation of substantive uncertainty is postponed, so long will the goals of development, poverty alleviation and egalitarianism elude South Africa’s democratic transition.

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<sup>11</sup> This public meeting took place in Cape Town on 10 March 2004.

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