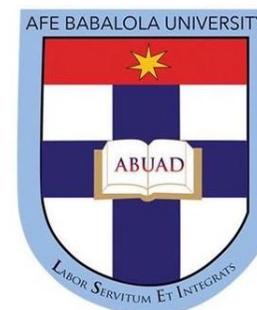




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## THE CONTRADICTIONS OF MARKET-FRIENDLY POLICIES IN POST-APARTHEID SOUTH AFRICAN MUNICIPALITIES

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### ABSTRACT

This article provides a closer examination of the extent of Broad-Based Black Economic Empowerment (B-BBEE), public-private partnerships (PPPs) and the outsourcing of services at local government level, which South African local government authorities are required by legislation to implement. This includes examining their theoretical underpinnings and the documents or legislation that set them up, their objectives, the extent of their use, their possible incompatibility and any formal evaluation of them (policy documents and legislation that have been carried out). The principal aim of this article is to provide an in-depth analysis of the market-friendly policies at local government level. The central question is: Do business-friendly policies promote sustainable development for the majority at local government level in South Africa? This is a qualitative literature review study. At the theoretical level, the political economy as a method of analysis is employed as a standpoint theory. There is a tendency—in some of the critical literature which creates a knowledge gap, as well as in the public debate – to include the whole set of policies as constituting a simple neoliberal package, which is problematic. There is an invidious interdependency between the two tendencies. Although the B-BBEE elements may be seen to be antithetical to free-market strategies, they in fact rely on those free-market elements to remain effective. The main line of argument in this article is that business-friendly policies in the form of B BBEE and PPPs are partly inspired by neoliberalism (B-BBEE is not neoliberal per se, although it may be heavily influenced by it) and neoliberalism in practice is contradictory in nature as it involves the allocation of state resources to politically influential individuals, rather than promoting economic development for the majority.

**Keywords:** Neoliberalism, political economy, Broad-Based Black Economic Empowerment, public-private partnership.

## 1. INTRODUCTION

Since the ushering in of South Africa's democracy, the issue of an economic empowerment strategy to reverse the effects of decades of apartheid has been among those at the heart of this country's body politic. The first responsiveness of the newly democratically elected government in 1994 was the Reconstruction and Development Programme (RDP)—a redistributionist social policy. Subsequently, it was replaced by Growth, Employment and Redistribution (GEAR) in 1996, an approach that elevated and put in place a pro-market set of mechanisms. This was followed by a combination of certain redistributionist measures, including affirmative action and Broad-Based Black Economic Empowerment (B-BBEE). Post-apartheid South Africa has continued to suffer from low economic growth and high unemployment, which is clearly not in the interests of most of the country's population. Moreover, Piketty Thomas posits that income inequality has been escalated in South Africa, putting the poorest of the poor in a precarious position<sup>1</sup>. It is against this background that this article examines the effects of these public policies in South Africa.

Moreover, this article grapples with the notion that the local political elites at local government level subscribe to the notion that to address poverty, unemployment and underdevelopment, implementing the privatisation of services, public-private partnerships (PPPs) and B-BBEE are an appropriate mechanism for economic growth, job creation and economic development. The privatisation of services, PPPs and B-BBEE are elite strategies for wealth accumulation because they benefit both business and political elites, to a much larger extent than the masses of the people at grassroots level. Noble as these policies were at conception, they have turned into the elite strategies for personal accumulation. David Harvey asserts that the appropriation of wealth in a capitalist mode of production is 'accumulation by

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<sup>1</sup> Piketty Thomas, *Capital in the 21<sup>st</sup> Century* (Harvard University Press, 2014)

dispossession<sup>2</sup>. This refers to the concealed methods of the ruling class to acquire more profit and wealth by keeping the working class at bay.

In this article, I focus my argument on two matters. First, I examine the neoliberal market reforms with a specific focus on PPPs. Second, I compare these with the counter market movement towards government intervention, via the promotion and support of B-BBEE enterprises. It must be noted that since PPPs certainly are an element of neoliberalism in the public sector, B-BBEE is not easily associated with it. Municipalities, in terms of government policy, may retain the same formal procurement procedures without necessarily outsourcing more than before and, nonetheless, add further provisions – that B-BBEE enterprises should receive preferential treatment in the allocation of outsourced contracts. As a result, this represents greater government regulation, not less, and cannot be unproblematically equated with neoliberalism, although they may be heavily influenced by it. They are business-friendly economic policies for the maximisation of profit and individual acquisition of wealth, but they have been applied in conjunction with some distinctly different policies in respect of racial preferences, and very strong labour protection. The regulatory aspects of B BBEE lend themselves to corruption and accumulation by the new elite.

Often, in South Africa, both B-BBEE and PPPs are hybridised. For instance, PPPs often involve B-BBEE enterprises. The South African Government established a Code of Good Practice for B BBEE in PPPs at local government level<sup>3</sup>. The PPP model is the coming together of both public and private institutions with the aim of rendering services to the people. Businesses take the lead in providing services and do the work for profit. The use of PPPs signifies that governments across the globe that are following neoliberal policies subscribe to the notion that economic development can best be brought about through market forces.

The B-BBEE model is not unproblematic, however, and is undermined on a large scale by white-owned enterprises

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<sup>2</sup> David Harvey, *A Brief History of Neoliberalism* (Oxford University Press, 2005)

<sup>3</sup> National Treasury, *Treasury Regulation for Department, Trading Entities, Constitutional Institutions and Public Entities* (Pretoria, 2005)43, 44

presenting non-white individuals as part of their establishments to comply with the letter of the law but flouting its spirit<sup>4</sup>. Consequently, the impact of B-BBEE has been marginal in improving the lot of black South Africans. The critics of B-BBEE tend to argue that the reverse side of the debate about B-BBEE is that the policy marginalises the participation of white South Africans in the economy.

Many highly skilled white South Africans have left the country, citing these discriminatory policies as the main reason for leaving. More specifically, these arguments have been advanced by, among others, the Democratic Alliance (DA) and the Freedom Front Plus. Paradoxically, Sampie Terreblanche points out that there is a huge number of white people (especially young ones) who argue that they did not contribute to the poverty of the majority of black South Africans<sup>5</sup>. He goes on to say that this line of reasoning is tantamount to denialism; it forgets that the consequences of colonialism and apartheid are still benefitting a substantial number of the white population (via 'white privileges and whiteness'), at the same time marginalising a huge chunk of the majority (blacks in particular)<sup>6</sup>. According to Robin DiAngelo, the concept of whiteness is epitomised by a defensive mechanism, lack of racial tolerance and white fragility<sup>7</sup>. She argues that white fragility registers itself through public and private anger when issues of racism are discussed and exposed<sup>8</sup>.

Again, although both B-BBEE and PPPs are perceived by policymakers to be a way of modernising and liberalising the public service, they are often designed in ways owing more to political exigencies than to providing opportunities for the poorest of the poor. Furthermore, B-BBEE entrepreneurs, especially those who have been empowered through PPPs, have benefitted from patronage. This kind of practice reinforces the argument that the business and political elites, through B-BBEE, PPPs and

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<sup>4</sup> Patrick Bond, *Elite Transition: From Apartheid to Neo-liberalism in South Africa* (University of Natal Press 2006)39

<sup>5</sup> Sampie Terreblanche, *A History of Inequality in South Africa 1652-2002* (UKZN Press 2012)

<sup>6</sup> *Ibid*

<sup>7</sup> Robin DiAngelo, 'White Fragility' (2011) *International Journal of Critical Pedagogy* 3,3.

<sup>8</sup> *Ibid*

privatisation, are using their strong networks (associated political, social and capital resources) in their efforts towards personal accumulation. This shows the linkages of such practices to the construction and reproduction of neoliberal discourses at the government level. Neoliberalism in its implementation has contradictions: In many cases, it involves the reallocation of state resources to the political elite for personal accumulation rather than promoting development. Market-driven public policies do not achieve their desired outcomes of improving the lives of the people. Market fundamentalism policies benefit mainly the politically influential and well-connected individuals, rather than promoting economic development for the majority<sup>9</sup>

The B-BBEE debate in this research will be raised in the context of local government. Moreover, experience in South Africa regarding GEAR-related policies such as B-BBEE shows that PPPs suffer from problems that afflict privatisation and procurement. The tendering process at local government level lacks transparency, and cronyism is prevalent in the Eastern Cape municipalities. Only those who are politically well-connected (people who have friends and relatives in government) succeed in obtaining tenders of very high value, even though they may often lack the expertise to render the services<sup>10</sup> In some instances, municipalities are awarding PPP tenders to black companies that do not comply with the B-BBEE scorecard. Public-private partnerships, the outsourcing of services and privatisation are inspired by neoliberalism; and neoliberalism in practice is contradictory in nature. It involves the allocation of state resources to politically influential individuals, rather than promoting economic development for the majority. If the yardstick of development is the upliftment of the masses, then neoliberalism in this context is counterproductive.

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<sup>9</sup> Ntsikelelo Benjamin Breakfast, 'Market Triumphalism and the South Africa State: A Case Study of Local Government'.(Unpublished Thesis, 2013); Ntsikelelo Breakfast, 'Anti-Neo-Liberal Social Movements within the context of South African Municipalities' (2014) *Administration Publica* 22,1; Ntsikelelo Breakfast, 'The effect of Macro-Economic Policies on Sustainable Development in South Africa: 1994-2014' *Journal of Public Administration* 55,4; Ntsikelelo Breakfast, 'The Complexities of Neo-liberalism in Post-Apartheid South Africa' *Journal of Reviews on Global Economics* 8

<sup>10</sup> Peter Farlam, 'Nepad Policy focus Series: Working Together: Assessing Public Private Partnerships in Africa' (2005) The South African Institute of International Affairs

The International Monetary Fund (IMF) and the World Bank have influenced the implementation of the privatisation of services such as water and electricity in South African municipalities<sup>11</sup> (These Bretton Woods institutions are also instrumental in propagating ‘market fundamentalism’ on a global scale. The complexities, contradictions and locally-nuanced approach in the context of neoliberalism as a discourse and set of practices such as the utilisation of social and political capital will be discussed later. Because of such privatisation, poor people at local government level will not be able to afford these services. This is a violation of human rights, particularly socio-economic rights, as stipulated in the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996)<sup>12</sup> The privatisation of services at local government level marginalises the working class and prevents these people from enjoying the benefits of democracy, which is not only about political rights such as a right to vote etc., but also about the second-generation socio-economic rights of poor people, and access to basic needs.

The implementation of these policies has inevitably led to a backlash. Anti-neoliberal social movements have been established post-1996 throughout the country to resist the neoliberal economic framework. Organisations such as the Anti-Privatisation Forum (APF), the Treatment Action Campaign (TAC), *Abahlali baseMjondolo*, the Landless People’s Movement, Jubilee, Unemployed People’s Movement and the Western Cape Anti-Eviction Campaign are among the grassroots movements that are opposing government’s development strategies at local government level in South Africa. This dramatic groundswell of opposition represents a new mass-based phase in the politics of the new South Africa.<sup>13</sup>

As it stands, the article is divided into several sections covering various discussions regarding the application of market-fundamentalism with a slant of state interventionism at times. The principal objective of this article is to provide an in-depth analysis

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<sup>11</sup> David McDonald and John Pape, *Cost Recovery and the Crisis of Service Delivery in South Africa* (HSRC Press 2003)

<sup>12</sup> Republic of South Africa, *The White Paper on Local Government* (Government Printers 2003)

<sup>13</sup> Trevor Ngwane, *Whither the social movements?* (2007)

of the market-friendly policies at local government level. This will be done by providing a closer examination of the extent of B-BBEE, PPPs and the outsourcing of services at local government level, which South African local government authorities are required to follow. This will include examining their theoretical underpinnings, and the documents or legislation which set them up (policy documents and legislation that have been carried out), their objectives, the extent of their use, their possible incompatibility and any formal evaluation of them that has been carried out. The central question is: Do business-friendly policies promote sustainable development for the majority at local government level in South Africa? This article will shed light on some of the difficulties inherent in the popular discourse on the concept of neoliberalism as applied to Local Economic Development (LED) in South Africa. This will be done by developing a scholarly argument that explains how elite policy strategies such as B-BBEE and PPP in the context of local government are promoting elite wealth accumulation by certain individuals. The discussion that follows will examine the standpoint theory of this article.

## 2. POSITIONALITY

In this section, I employ a political economy approach as a theoretical framework. This is largely because I have identified this approach as a relevant critique of the market-friendly policies followed by several municipalities. The ontological approach adopted in this article is the phenomenological or interpretive paradigm in which, as the researcher, I interpret the facts from a particular set of theoretical and ontological assumptions. Using this approach, I have chosen to examine the local government model of economic development from the standpoint of the political economy.

This approach is seen to be relevant because, among other things, this study provides a critique of the structural relationship between the business community and the political environment. Political economic analysis is seen to be relevant because it enables me to develop a deep understanding of the issues examined here. Again, using a specific theoretical framework as a model of data analysis is an acceptable academic practice in social science, and

implies that the academic background of the researcher is influenced by certain ideas.

Political economy in this study is defined as the interaction of state and market. It examines the structural arrangement of capital and the political elites. Political economy is therefore interested in the outcomes of the relationship between political leaders and the business community on the people at a grassroots level. The approach explores very closely how political and business elites utilise certain strategies for individual acquisition of wealth at the expense of the poorest of the poor<sup>14</sup>

Elites, according to the political economy perspective, use state resources to enrich themselves. More specifically, the political economy paradigm focuses on how business and political elites, through economic policies such as privatisation and the outsourcing of services, are using their strong networks (associated political social capital resources) in their efforts for personal accumulation. Therefore, an examination of GEAR-related policies at local government level is extremely relevant.

The political economy approach focuses on how the relationship between political institutions and the economic environment creates scope for corruption. The political economy perspective is an interdisciplinary approach that integrates politics and the economy. For example, it grapples with issues such as whether democracy in modern society can promote economic development for everyone<sup>15</sup>

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<sup>14</sup> Wright Mills, *The Power Elite* (Oxford University Press, 1959), Svante Ersson and Jan Erik Lane *Comparative Political Economy: A Developmental Approach* (Printer 1997); Robert Jackson and Doreen Jackson, *A Comparative Introduction to Political Science* (Prentice Hall 1997); M Castells, *The Power of Identity* (Vol 2, Blackwell 2000), A Przeworski, *State and Market: A Primer in Political Economy* (Cambridge University Press 2014), N Chomsky, *Hopes and Prospects*. (Penguin Books 2010)

<sup>15</sup> Wright Mills, *The Sociological Imagination* (Oxford University Press 1959); Alt and Alesina, 'Political Economy: An Overview' in R Goodin and H Klingemann (eds) *A New Handbook of Political Science* (Oxford University Press 1996); Robert Jackson and Doreen Jackson, *A Comparative Introduction to Political Science* (Prentice Hall 1997); A Przeworski, *State and Market: A Primer in Political Economy* (Cambridge University Press 2014); Ntsikelelo Breakfast and P Madumi, 'Social and Political Capital: Crony Capitalism in Post Apartheid South Africa' *Journal of Nation Building and Policy Studies* (2020)

Political economy as an approach for social analysis is normally associated with Karl Marx and Friedrich Engels because they were the first to employ it alongside class analysis as methods of social diagnosis in their seminal work titled *The Communist Manifesto*. According to proponents of classical Marxism, decisions made by political leaders have an impact on the economic environment, and vice versa. They hold the view that politics is influenced largely by market forces. Among other things, supporters of the political economy approach argue very strongly that capital is more powerful than politicians, because the bourgeoisie own the means of production in society. Again, politicians are perceived to be largely serving the interests of capitalists by creating public policies that perpetuate the status quo. Overall, the political economy tradition is concerned with poverty, unemployment, development, climate change, international trade, and fiscal and monetary policies<sup>16</sup>. The political economy approach concentrates on the allocation of resources in society<sup>17</sup>.

### **3. MARKET-FRIENDLY POLICIES AT LOCAL GOVERNMENT LEVEL**

In this section, I will first briefly discuss the restructuring of municipalities in post-apartheid South Africa, because local government is the focus of this study. Second, I will briefly highlight the intellectual history of neoliberalism and move from the international arena to the South African context. Subsequently, this section will outline the thinking behind the policy framework of B-BBEE and PPPs at local government level. The aim of this section is to introduce the reader to a brief history of B-BBEE, PPPs, GEAR and the neoliberal slant in South Africa

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<sup>16</sup> Karl Marx and Friedrich Engels, *The Communist Manifesto*. (Penguin Books 1967); P Best, B Rai and D Walsh, *Politics in Three Worlds: An Introduction to Political Science* (Macmillan Publishing Company 1986); J Freedman, *Democracy and Market: The Politics Mixed Economies* (Cornell 1989); R Jackson and D Jackson, *A Comparative Introduction to Political Science* (Prentice Hall 1997); A Przeworski, *State and Market: A Primer in Political Economy* (Cambridge University Press 2014), Cornel West, *Keeping Faith: philosophy and Race in America* (Routledge Classics 2009).

<sup>17</sup> Adam Przeworski, *State and Market: A Primer in Political Economy* (Cambridge University Press 2014)

in a more systematic, logically argued fashion. Most importantly, will show in the following discussions that not much scholarly work has been done on how municipalities are promoting and reinforcing neoliberal policies and practices in post-apartheid South Africa. Thus, this article is intended as a distinctive contribution to local and international scholarship.

With respect to local government, the political transition to democracy in South Africa has brought about several changes such as the restructuring of municipalities post-1994. During the apartheid era, municipalities in South Africa were created along racial lines with services delivered unequally across the racial divides. White people had their own municipalities with better resources than the other groups in South Africa. In fact, local government and services were delivered differentially, with black South Africans receiving the least, and whites the best services, with coloured and Indian people receiving intermediate levels of service. At the multi-party negotiations in 1991, a platform was created for discussions about local government. This was called the Local Government Negotiations Forum (LGNF). In this forum, it was agreed by different political parties that the Local Government Transition Act, 1993 (Act No. 209 of 1993) be formulated as a policy to pave the way for the restructuring of local government in the new South Africa<sup>18</sup>

In the year following—the first democratic general election—local government elections were held throughout the country. In 1995, South Africa had 1200 municipalities, and these were reduced to about 880 municipalities due to the formulation of Local Government Demarcation Act, 1998 (Act No. 27 of 1998)<sup>19</sup>. Later, municipalities were again reduced, this time to 283, with seven metropolitan municipalities<sup>20</sup>. It should be noted that they were Transitional Local Councils (TLCs) in line with the Local Government Transition Act, as alluded to in the previous paragraph. They only became fully fledged municipalities after

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<sup>18</sup> Jacobus Cloete, *Public Administration and Management: New Constitution Dispensation* (Van Schaik Publishers 1996)

<sup>19</sup> Republic of South Africa, *The White Paper on Local Government* (Government Printers 1998).

<sup>20</sup> Nondumiso Maphazi, 'A Critical analysis of the role of public participation in governance and service delivery with specific reference to the Buffalo City Municipality' Unpublished DPhil Thesis (2012)

new demarcations in line with the Local Government Demarcation Act. In 1998, the South Africa Government passed a White Paper on Local Government, focusing on the restructuring of local government. Following the Constitution of South Africa, that municipalities are closer to the people on the ground; and that South African municipalities should therefore espouse the values of a developmental local government<sup>21</sup>. The concept of developmental local government commits municipalities to work alongside their citizens by growing the economy and promoting development<sup>22</sup>.

This implies that municipalities have a responsibility to respond to the socio-economic problems of inhabitants, and it is therefore the mandate of local government throughout the country to improve the lives of the people. This should happen by creating jobs and reducing the gap between the 'haves' and the 'have-nots'.

#### **4. ANTI-POVERTY STRATEGIES: INTEGRATED DEVELOPMENT PLAN AND LOCAL ECONOMIC DEVELOPMENT**

The notion of development in South African municipalities is directly linked to the Integrated Development Plan (IDP). The IDP is a strategic plan required of all the South African municipalities. It is intended to be a road map of municipalities for economic development. The IDP was an idea that emanated from the IMF and the World Bank during the early 1990s. The IMF, World Bank, the USA, England and Germany, as well as academics, both local and international, developed the concept of the IDP. It has become clear that pro-market ideas are at the heart of the IDP. The IDP requires that the private sector take the lead in development in local government. There is an assumption that this will lead to a trickle-down effect of economic development and job creation, and will benefit the population as a whole<sup>23</sup>.

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<sup>21</sup> Ibid 19

<sup>22</sup> Ibid 19

<sup>23</sup> Philip Harrison, *Integrated Development Plans and Third Way Politics* in J Du Toit, J Tomlinson and U Pillay *Democracy and Delivery: Urban Policy in South Africa* (HSRC Press 2006).

According to the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (RSA, 2003:39), the IDP must be linked to the budget of the municipality and reflect the macro-economic policy of the national government and provincial government development plan. This implies that the IDP is expected to be in line with the National Spatial Development Perspective (NSDP) and the Provincial Growth Development Plan (PGDP). The table below demonstrates how development policies in all three spheres should be linked to each other:

**Table 1.1 Development policy in South Africa**

Macro-Economic Policy
National Spatial Development Perspective
Provincial Growth Development Plan
Integrated Development Plan

Source: Eastern Cape: Office of the Premier, 2012:6 <sup>24</sup>

All the plans have the intended objectives of service delivery and improving the lives of the people. At a glance, the macro-economic policy is a plan that guides the government of the day on how to distribute wealth, create jobs, attract investment, engage in trade with other states and promote development. The macro-economic policy and the NSDP are both designed by the national government. The NSDP is drafted for a five-year period. Over and above this, it argues that economic growth should lead to job creation. In the main, these jobs are expected to be created by the private sector. The PGDP is drafted at the provincial level to assist the national government to promote development. Again, the PGDP is a development policy for each and every province in South Africa, linked to the Millennium Development Goals set out by the United Nations that aimed to reduce poverty by half by 2014. The IDP also comes into play in this context because it

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<sup>24</sup> Eastern Cape of the Premier, Eastern Cape Provincial Strategic Framework (2012)

serves as a five-year vision for the economic development of all the municipalities in South Africa<sup>25</sup>.

The IDP is intended to be in line with the LED plans of municipalities in South Africa. The LED municipal programme is implemented in the context of an IDP at local government level. All in all, LED is the coming together of business, community-based organisations and government, with the aim of tackling unemployment, accelerating economic growth and eradicating poverty at the municipal level. In the South African context, LED refers to initiatives undertaken at local government level by different partners to address socio-economic problems. Local Economic Development has of late become the responsibility of municipalities working alongside different sectors of society. The LED policy is concerned with the economic stability of municipalities. Over and above that, LED focuses in the main on the creation of jobs by attracting foreign direct investment to meet the needs of inhabitants<sup>26</sup>.

Each municipality has the right to formulate its own LED policy geared towards the development of its people. Local economic development strategies throughout South African municipalities support the PPP model for service delivery. The PPP model is the coming together of both public and private institutions with the aim of rendering services to the people. Businesses take the lead in providing services and do the work for profit. The use of PPPs signifies that governments across the globe that are following neoliberal policies subscribe to the notion that economic development can only be brought about through market forces. The implementation of the PPPs was first seen in England and the USA for service delivery during the early 1980s. The PPP model is perceived by its critics to be another method of the private accumulation of wealth by capital, because it benefits only a tiny minority of people who have strong political links with the 'powers that be'.

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<sup>25</sup> National Spatial Development Perspective, The Department of Presidency (2003), National Spatial Development Perspective, The Department of Presidency (2006)

<sup>26</sup> K Phutiagae, *Local Government Development and Municipalities in South Africa* in Van der Waldt *Municipal Management: Serving the People* (Juta and Company 2007); E Blakely and G Leigh, *Planning Local Economic Development* (Sage Publications 2010)

The motivation behind the PPP model was to make service provision cheaper. Instead of government rendering the services, it outsourced some of its responsibilities to the private sector in terms of services delivery<sup>27</sup>. This is in line with the pro-market principle that productive enterprises should confine themselves to their 'core business' and outsource non-core competencies. In other words, government should outsource the provision of services. The South African Government has developed a policy framework that makes it possible for municipal, provincial and national institutions to engage in public-private agreements. A Code of Good Practice gives clear guidelines about each element of private companies' B-BBEE equity structure, management, subcontracting and local socio-economic development.<sup>28</sup>

There is a common denominator in South African municipalities, which is the thinking that LED should include anti-poverty strategies such as B-BBEE, PPPs and the privatisation or outsourcing of services for job creation. The local political elite are assuming that GEAR-related policies will in the end promote development for all the people. The B-BBEE policy is applied when municipalities are using the outsourcing of services and the PPP model for service delivery. This is the strategic approach of the African National Congress (ANC) government to encourage maximum participation of black people in the economy. Thus, affirmative action was brought to the fore as a public policy. It was the ANC that put affirmative action on the agenda in the new South Africa. There had been two countries in the world that had implemented affirmative action prior to South Africa: Malaysia and the USA<sup>29</sup>.

The intellectual mainspring for the ANC government's affirmative action policy can be found in the policies of the Malaysian majority party – the Bumiputera – after 1969, and the policy adopted by the USA in 1968. In Malaysia, the argument has been made that only the elite have benefitted from affirmative action<sup>30</sup>.

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<sup>27</sup> National Treasury, Public-Private Partnership (Pretoria 1996)

<sup>28</sup> National Treasury, Public-Private Partnership (Pretoria 2005)

<sup>29</sup> African National Congress, 'Affirmative actions and the New Constitution' (2004) <[www.anc/policy/aff/document](http://www.anc/policy/aff/document)> Accessed 20 September

<sup>30</sup> Brian Pottinger, *The Mbeki Legacy* (Zebra Press 2008).

Equally, the same argument has been made about affirmative action in South Africa. The critics of B-BBEE and affirmative action in South Africa have argued very strongly that these policies only benefit the middle class and those who are politically connected. The ruling party in South Africa sees affirmative action as a public policy for transformation in both the public and the private sector.

Again, the ANC believes that affirmative action is a policy for the deracialisation of the economy of South Africa. This implies that this policy is meant to increase the maximum economic participation of the historically disadvantaged. Affirmative action means different things to different people. For some, it means the general elimination of discrimination and the application of the merit principle when making decisions regarding employment. Moreover, affirmative action refers to equal results or the redressing of wrongs caused by the past regime<sup>31</sup>.

Among other things, affirmative action embraces B-BBEE. Gevisser argues that B-BBEE should be perceived as President Thabo Mbeki's transformation agenda<sup>32</sup>. He goes further to say that the B-BBEE charter aimed, on average, for 25% direct ownership of equity by blacks by 2014, 'but by 2006 these targets would still be way off, black ownership hovered at around only eight per cent'<sup>33</sup>. This raises the question of whether B-BBEE would achieve its policy outcomes as outlined in the charter. The South African Government also established a Code of Good Practice for B-BBEE in PPPs in local government.

Both B-BBEE and PPPs were implemented in the government's GEAR policy framework. This is widely considered to be a market-friendly policy strategy. Among other things, it encourages the government to privatise state assets. Unfortunately, the South African economy has performed dismally since 1996, when international competitiveness became

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<sup>31</sup> H Nel, 'Affirmative Action at Local Government Level' (1997) The Institute for Social and Systemic Change

<sup>32</sup> Mark Gevisser, *The Dream Deferred: Thabo Mbeki* (Jonathan Ball Publishers 2007)

<sup>33</sup> *Ibid*

the overriding aim via the GEAR strategy<sup>34</sup>. For instance, South Africa's unemployment rate, although at 19% in 1996, rose to 30% in 2002; it has eased slightly since then<sup>35</sup>. The long-term economic growth rate has been estimated at 3,5% under the current policy environment<sup>36</sup>. As regards competitiveness, according to the Swiss Institute of Management Yearbook, after having fallen eight places, South Africa ranks only 52nd out of 59 ranked countries.

One needs to provide the context of the GEAR policy in South Africa. In preparation for the first democratic election, the ANC used the RDP as the election manifesto. The RDP was more of a social policy; it did not include all the components of a macro-economic policy. It focused on an expansionary fiscal policy, which was aimed at addressing the socio-economic problems of the new South Africa. However, in the mid-1990s, the South African economy started to experience some problems. Among other things, these included the negative effects of debt from the apartheid era, difficulties attracting foreign direct investment and the costs of a large state administration. To some in the government, this meant that there was a need for a new macro-economic policy framework. Subsequently, in 1996, the GEAR policy was brought to the fore as a macro-economic policy. Naomi Klein argues that 'the ANC needed a completely new economic plan; something bold, something shocking, something that would communicate, in the broad, dramatic strokes the market understood, that the ANC was ready to embrace the Washington Consensus'.<sup>37</sup>

The context that led the new ANC government after 1994 to give in to a neoliberal world order (although business-friendly policies existed during apartheid) must always be highlighted when discussing market fundamentalism. This is largely because the application of neoliberalism gave effect to the collapse of the Soviet Union and the privatisation of services. It must be noted

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<sup>34</sup> Patrick Bond, *Elite Transition: From Apartheid to Neo-liberalism in South Africa* (University of Natal Press 2006)39

<sup>35</sup> United Nations Development Program 'International Human Development Indicators' (2012) [hdrstats.undp.org/en/countries/profiles](http://hdrstats.undp.org/en/countries/profiles) >Accessed 2 May 2012

<sup>36</sup> *Ibid*

<sup>37</sup> Naomi Klein, *The Shock Doctrine: The Rise of Disaster Capitalism* (Penguin Books 2007)

that there were numerous debates about what the new socio-political environment would be in the post-apartheid South Africa. Consequently, it is fundamentally important to give some background when examining and discussing neoliberalism in the so-called new South Africa. The application of 'Washington Consensus' policies in the new South Africa should be in context, which includes the democratisation process and the demise of the apartheid regime<sup>38</sup>. However, the neoliberal package in South Africa has always been at the heart of the South African political economy, as opposed to the populism that business-friendly policies have been implemented only post-1994. In the late 1980s, the Mineral Energy Complex in South Africa succeeded in convincing the National Party government to accept business-friendly policies that encouraged privatisation and the minimalist role of the state<sup>39</sup>.

The GEAR policy, which has been widely characterised as an application of neoliberalism<sup>40</sup> was a move away from the fundamental foundations of the Keynesian RDP policy. Again, the GEAR policy was introduced with no consultation in the ANC and the alliance partners. Political analyst Xolela Mangcu<sup>41</sup> for instance, argues that the National Economic Development and Labour Council (NEDLAC), an institution established for consultation on economic decisions, was not consulted on the policy formulation of GEAR. This policy was perceived by people within the Tripartite Alliance and outside it as a neoliberal-inspired policy influenced by international capital through the new black political elite in South Africa. From a dependency theory viewpoint, one might therefore consider the South African political elite as a 'comprador class', serving the interests of the international bourgeoisie.

The GEAR strategy also supported fiscal discipline, which meant that government would spend less on education, health and social

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<sup>38</sup> Neville Alexander, *An Ordinary Country: Issues in the Transition from Apartheid to Democracy in South Africa*. (University of Natal Press 2002)

<sup>39</sup> Sampie Terreblanche, *Lost in Transformation: South Africa's Search for a New Future since 1986*. (KMM Review Publishing Company 2018).

<sup>40</sup> Vishnu Padayachee, *The Development Decade? Economic and Social Change in South Africa* (HSRC Press 2004)

<sup>41</sup> Xolela Mangcu, *To the Brink: The State of Democracy in South Africa* (2008)

development programmes for poverty eradication. It was consequently perceived to be anti-poor. More specifically, government expenditure was reduced by 5,7% in 1997 to 3% on social policy in early 2000<sup>42</sup>. The GEAR policy was part of the structural adjustment ideological framework of neoliberalism supporting fiscal discipline. Although GEAR's proponents predicted an economic growth rate of 6%, which would solve the problem of high unemployment in South Africa, it should be noted that this was never realised<sup>43</sup>. One can therefore conclude that GEAR never achieved its intended policy objectives.

Government policies are judged by their results, not by what they would like to achieve. The government should be pragmatic in solving socio-economic problems. The GEAR policy has encouraged the privatisation of state assets and the outsourcing of services in all spheres of government since 1996. This has accompanied the advancement of a culture of greed and personal accumulation of wealth by those who are politically well-connected. The GEAR policy is normally associated with some of the elements of the ideological underpinnings of neoliberalism because it proposes many of the same policy prescriptions, such as the privatisation of services and state assets.

The historical roots of neoliberalism can be traced from post-Second World War attempts to address reconstruction and development of a destroyed Europe and an economic framework to deal with independent colonial societies as a means to reduce the sphere of influence of the Soviet Union. In the 1980s, in response to crises surrounding the convertibility of the dollar and stresses in the industrial economies caused by spiralling increases in the cost of energy, the capitalist economic framework was redeveloped towards market fundamentalism to deal with these criticisms and was relabelled neoliberalism. Multilateral institutions such as the IMF and the World Bank have strongly

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<sup>42</sup> Lefentse Nokaneng and C Harmse, 'Economic Policy: Some Lessons from Southeast Asia' in Parsons, R. Zumanomics: Which Way to Shared Prosperity in South Africa? Challenges for a New South Africa (2009).

<sup>43</sup> Ibid 32

supported adherence to a free-market system as part of the conditionality for international aid and assistance<sup>44</sup>.

Neoliberalism desires less government intervention in the economy, the privatisation of state institutions, a balanced budget and fluctuating interest rates. The neoliberal ideology has spread around the world since its application in Latin American countries during the late 1970s. The first example we observe is the economic experiment carried out by the 'Chicago Boys' in Chile during the Pinochet regime. Narrow neoliberal economic policies are not necessarily a sound foundation for economic development<sup>45</sup>– they breed income disparity, which in turn is a threat to democratic consolidation<sup>46</sup>.

Neoliberal policies and practices accommodate relatively unfettered wealth accumulation and promote inequalities as well as undermining the culture of democracy. The effect of unregulated international capitalism tends to undermine democracy; it is based on the maximisation of profit and creates different classes, and class tensions, in society. Democracy, meanwhile, is intended to promote equality for everyone in society. Democracy also implies that the socio-economic needs of the poorest of the poor are being taken care of by the 'powers that be'.

Neoliberal ideas were embraced by Prime Minister Thatcher of the UK, and President Ronald Reagan of the USA in the early 1980s. Sometimes called the 'New Right', these ideas were strongly promoted by the two governments and soon became a new orthodoxy, widely embraced by the ex-socialist states of Eastern Europe and many other emerging democracies<sup>47</sup>. In the last twenty years the neoliberal orthodoxy became predominant in

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<sup>44</sup> David Harvey, *A Brief History of Neoliberalism* (Oxford University Press 2005), D Harvey, *Neo-liberalism and the Restoration of Class Power* (Graduate Centre 2011).

<sup>45</sup> John Saul, *The Collapse of Globalism and the Reinvention of the World* (Grove Atlantic 2005)

<sup>46</sup> Martina Hibell, *Development with Neo-liberal Policy: Is Income Inequality a Negative Societal Outcome* (Lunds University 2008).

<sup>47</sup> Desmond King, *The New Right: Politics, Markets and Citizenship* (The Dorsey Press 1987)

all major levels of government and shaped the policy recommendations of the major think tanks all around the world<sup>48</sup>.

The receipt of international aid from the global financial institutions became conditional upon sound fiscal discipline, small government and free markets. This policy direction was not simply neoliberal. Although it was supportive of the free-market ideals of Friedman and Hayek, it was also in favour of some elements of big government: most notably, a move in the direction of military spending and away from the 'welfarism' that had become popular in Europe and elsewhere. These policies have generally also resulted in more, rather than less, government spending. The neoliberal ideological framework is premised on the notion that to address poverty, one must create employment; these jobs are created through the expansion of the formal economy. Furthermore, the growth of the formal sector can only happen when there is a large middle class.

In South Africa, this relates to the need to create a 'black middle class' and a 'black capitalist class' which are expected to run the economy and bring prosperity to those who are at the periphery by creating employment. According to the neoliberals, this is an approach to address poverty and improve the lives of the people. This approach also incorporates a 'trickle-down' effect which implies that when the economy grows, the benefits will also be enjoyed by the poor. What is central to the neoliberal model is to obtain economic growth first, and subsequently address poverty through the 'trickle-down' effect. Neoliberals hold the firm view that it is only the private sector that can bring about development in any country.

There is ample evidence to indicate that the unregulated markets supported by the new orthodoxy have a tendency towards crisis. This is amply borne out by the Asian financial crisis of 1997 (which resulted in currency collapse, slumping stock markets and millions of people falling below the poverty line), the dot-com stock bubble of March 2000 and the ongoing financial crisis (at the time of writing) that continues to affect the economic growth of

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<sup>48</sup> Massimo De Angelis, *Marx's Theory of Primitive Accumulation: A Suggested Reinterpretation* (University of East London 2009).

most of the world's economies, and which continually demands sacrifices from the poorer echelons of society<sup>49</sup>.

It is widely accepted that the recession is affecting poor people globally, and South Africa has also witnessed several protests nationwide by people complaining about poverty, unemployment, housing and the increasing food prices. It is evident that the global recession has affected the poor at all levels. Social discontent is often the situation in countries with neoliberal policies. The neoliberal ideological framework is directly linked to primitive accumulation.

Marxists hold the view that primitive accumulation is based on the historical standpoint of capitalism: of accumulating wealth at the expense of the working class. This principle can also be linked to the philosophical basis of neoliberalism or free-market capitalism, which is the maximisation of profit. There are two factors behind neoliberalism. First, it is the expansion of capitalism and the massive spread of goods around the globe. This phenomenon is linked to 'primitive accumulation, by which "non-capitalist" modes of production change into capitalist ones'. The notion of making a profit by using cheap labour is linked to over-accumulation. Primitive accumulation is also connected to the transition from feudalism to capitalism<sup>50</sup>.

The application of neoliberalism in the context of local government is also influenced by the IMF and the World Bank via LED, among other things. Municipalities are expected to reduce their government expenditure through the privatisation of services. Poor communities are not able to access free services due to these GEAR-related policies. The concept of free services is disappearing in South African municipalities because of elements of market fundamentalism. The phrase 'free services' was first used by the ANC during the build-up to the 2000 municipal

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<sup>49</sup> ILRIG, Globalization and the current crisis'. (2009)3

<sup>50</sup> D Moore, 'International Political Economy: Globalization and its Discontents' Master's thesis (2006)21-22

elections. It was also embraced by the DA as part of its election manifesto in the same year<sup>51</sup>.

Market forces are not concerned about free services; they are only interested in making maximum profit. Consequently, GEAR-related policies are referred to as anti-poor or anti-working class. Development at any level must not be market-driven; it is unlikely to happen because of the philosophical basis of neoliberalism, namely the maximisation of profit, cheap labour, the reduction of government expenditure and the exploitation of the working class. Development must be driven by the government of the day. McDonald and Pape contend that there are several incidents in South African municipalities where essential services have been privatised completely or outsourced to a service provider. They go on to say that outsourcing in most cases is coupled with the restructuring of government departments which advances the idea of the municipality as a form of 'financially ring-fenced unit'<sup>52</sup>

The above literature signifies that the application of neoliberalism is rooted in both the IDP and LED plans, because PPPs and B-BBEE are perceived by local political elites to be a strategy of poverty eradication, job creation and service delivery, as articulated early on. Inasmuch as the outsourcing of services and PPPs are part of the dimension of neoliberalism, B-BBEE is not easily associated with it. For instance, municipalities may retain similar formal procurement procedures and policies without privatising services and may add an extra provision concerning procurement. It is a business-friendly economic policy meant for the maximisation of profit and individual acquisition of wealth, but it has been applied in conjunction with some distinctly different policies in respect of racial preferences and very strong labour protection.

There is a new syndrome among people in post-apartheid South Africa of getting rich quickly at all costs. However, this does not mean that all black people think along these lines. Those who are politically connected, who do not work hard to acquire wealth,

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<sup>51</sup> Patrick Bond, *Elite Transition: From Apartheid to Neo-liberalism in South Africa* (University of Natal Press 2006)39, David McDonald and John Pape, *Cost Recovery and the Crisis of Service Delivery in South Africa* (HSRC Press 2003)28

<sup>52</sup> *Ibid* 11

are sending the wrong message to the black youth that one can get rich without working hard, precisely because they see from older people how they have acquired their wealth. Broad-Based Black Economic Empowerment does not benefit the poorest of the poor, in rural areas. Instead, it leads to tender corruption at all levels of government. A few B-BBEE beneficiaries hold senior positions in the ruling party. Sometimes ANC politicians, ministers and public servants use B-BBEE to become board members in different private companies while they are holding public office<sup>53</sup>.

## 5. CONCLUSION

In the main, this article aimed to explain and analyse the situation of market-friendly policies in post-apartheid South Africa. Coupled with this was a closer examination of policies such as B-BBEE and PPPs. It must be noted that in as much as PPPs certainly are an element of neoliberalism in the public sector, B-BBEE is not easily associated with it. Municipalities, in terms of government policy, may retain the same formal procurement procedures, without necessarily outsourcing more than before, and add further provisions that B-BBEE enterprises should receive preferential treatment in the allocation of outsourced contracts. Consequently, this represents greater government regulation, not less, and cannot be unproblematically equated with neoliberalism, although they may be heavily influenced by it. The literature in this article demonstrates that both B-BBEE and PPPs have benefitted only a tiny minority of people linked to the ruling party, the ANC.

Neoliberalism in practice is contradictory in nature as it involves the allocation of state resources to politically influential individuals, rather than promoting economic development for the majority. The privatisation of services at local government level

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<sup>53</sup> Ben Turok, From the Freedom Charter to Polokwane: The Evolution of ANC Economic Policy (Picasso Headline 2008)163

has influenced the rise of anti-neoliberal social movements throughout South Africa after the ushering in of democracy. The local development policies of PPP and B-BBEE that are being applied through LED strategies are not in the interests of the majority in South Africa. Again, pro-market policies, according to findings, create a scope for corruption in municipalities. This evidence reinforces the argument that local business and political elites, through B-BBEE, PPPs and the outsourcing of services, are using their strong networks (associated political and social capital resources) in their efforts for personal accumulation. Again, this shows the linkages of such practices to the construction and reproduction of neoliberal discourses at different levels of government. I have examined the interaction between the state and market through the lenses of the political economy approach, which is the theoretical standpoint of this article. The political economy perspective is helpful in this study in analysing the phenomena at play owing to its interest in how the political elite, alongside capital, utilise certain strategies to acquire wealth at the expense of the poorest of the poor. Elites, according to the political economy approach, use state resources to enrich themselves.