GEAR blues on the morning after

Oupa Lehulere catalogues GEAR's failures and argues that neo-liberal policies exist to protect and increase the wealth of the financiers.

A few months ago, practically everyone agreed that the world economy stood on the brink of its gravest crisis since the 1930s. Indeed, so real was this prospect, that a serious questioning of the economic wisdom of our time – neo-liberalism – began to be heard in the corridors of the very institutions that had been at the forefront of promoting and imposing this path. Leading figures in the World Bank and allied think tanks began to question the wisdom of leaving all to the markets.

At that time, without blushing one bit, the South African government boasted that South Africa had been sheltered from the global economic storms by precisely the policies that were increasingly being blamed for the world crisis. The Department of Finance boasted that its own home grown neo-liberalism, GEAR, gave the South African economy a strong foundation and this made it possible to continue on the road to growth, increased employment and redistribution. Now, the South African government's stand would seem to be justified. After all, the prophesies of doom current a few months ago, have given way to the popping of champagne corks and celebration as the US (and following it the other) stock markets have climbed to new heights.

Meanwhile, the South African elections have come and gone. In the run up to the elections, GEAR disappeared from the landscape of political debate. The ANC's manifesto did not mention it, and COSATU began speaking of a post-GEAR consensus. The elections were barely over when COSATU and the working class got a rude awakening. GEAR reappeared. More importantly, the working class got its thanks for delivering a huge ANC victory by a new round of massive retrenchments, health systems on the verge of collapse, and deadlock in public sector wage talks. Now, even COSATU has apparently reversed it pre-election silence on GEAR and has blamed it for the current jobs crisis.

When government launched GEAR in 1996, it promised accelerated economic growth, growing employment, and redistribution of wealth. Three years on, the promises continue to recede into the distant future, and instead we have a recession. We have sharp falls in employment and increasing concentration of wealth. This has not, however, changed the hearts of our modern day Pharaohs – not the floods, not the locusts, not rivers of blood, and not even the death of the infants of the land have convinced government that GEAR means catastrophe for the working people in this country.

GEAR's failures over the last three years in South Africa, and neo-libralism's failure over the last 25 years in many parts of the world, are not accidental. They will not be reversed by more belief in the gospel. The failures are a result of neo-liberalism's primary goal: redistributing wealth from the poor to the rich.

A catalogue of failures

Nowadays, only the very brave or the very foolish dare put forward targets for Gear. Three years ago, however, the ANC-led government believed in GEAR so strongly that it set targets. Three years on, GEAR has been an unmitigated failure:

- Against GEAR's economic growth forecast of 6% per annum in the year 2000, growth has fallen steadily since 1996 and we have seen negative growth in the last quarters of 1998.
- Against predictions of manufacturing growth, by 1998 we had a manufacturing decline of 1,7%.
- GEAR forecast job creation to rise steadily until about 400 000 jobs per year are created by the year 2000. Against this, there has been massive job loss. Employment decreased 0,7% in 1996 and 1,7% in 1997. In 1998 the bloodletting continued, and as I write (1999) massive retrenchments in mining, telecommunications and other sectors are looming.
- GEAR promised increased private sector investment. The reality is that private sector investment fell from 6,1% in 1996 to 3,1% in 1997 and then to negative territory (- 0,7%) in 1998.
- GEAR was meant to facilitate the rise of Foreign Direct Investment (FDI). While FDI grew to $1,7-billion in 1997, there was disinvestment out of South Africa of $2,3-billion in 1997.
- GEAR promised that a smaller and smaller proportion of the national budget would go toward servicing debt. This proportion actually rose from 17,1% in 1997 to 18,1% in 1998. The ratio of gross domestic savings to GDP fell from 16,9% in 1994-1995 to 15,2% in 1997 and 14,2% in 1998.
- Export-led growth has also failed. The current account deficit relative to GDP deteriorated from 1,3% in 1996 to 2,1% in 1998.

In general, GEAR's first three years have been disastrous. High interest rates (which according to GEAR are to fight inflation) have in reality fought against employment creation and have led to the highest levels of bankruptcies in a very long time. South Africa is facing levels of social disintegration that no social safety net will be able to deal with.

Are these results accidental? Are they of a temporary nature? Should we endure seven painful lean years in anticipation of seven years of abundance? Evidence from more than two decades of neo-liberalism shows that if the working class and its allies are unable to force government to change course, the pain will become permanent.

The financiers' programme

Neo-liberalism, as a serious economic programme for various governments, emerged out of the global economic crisis that broke out in the early 1970s. The 1970s crisis was a crisis of profitability for the various capitalist classes.

Capitalists in many parts of the world experienced sharp declines in profits. It took about ten years for the international capitalist class to realise they needed a serious change in economic orientation to restore their profitability levels. The crisis

Wealth has been redistributed from the poor to the rich.

continued to deepen throughout the 1970s, as overproduction of commodities continued to lead to profit losses. In response, capitalists took larger amounts of capital away from productive investment. Instead, they made profits by selling currencies and shares in financial markets, and by earning interest from their large cash reserves in banks. This is called speculative investment.

This growing importance of money capital was evidenced by the growth of powerful new financial institutions – the so-called finance houses in the USA. By the early 1980s, these institutions had become more powerful than some of the largest banks in the world. The dominance of this class of financiers over the other sections of the capitalist class, government and society, took a major step forward when, especially from the 1970s onwards, company and state debt (or credit) was increasingly securitised. (Securitisation is a process whereby credit to companies or governments is made in a form in which it can be bought or sold. The major forms of securitisation are shares, corporate bonds and government bonds.) With securitisation, the producer capitalists and governments could be instantly punished when the money traders decide to sell their shares or bonds.

But money does not produce wealth and growth, it is a consequence of wealth creation. This is because at any point in time the amount of money in circulation in a country must reflect the commodities in circulation. If there is more money than commodities, the value of money falls – what is called inflation. When financiers, therefore, 'earn' more money from *financial speculation*, they are merely taking a portion of the wealth – now reflected in money – already in circulation.

Money capitalists are therefore a parasitic class that feeds on both capitalists and other classes in society which create wealth. As a result, neo-liberalism's central principle is the transfer of wealth from producers, the working class, small business people, the poor in general and even other capitalists, to the financier class. This transfer of wealth from the poor to the rich constitutes the basic programme of GEAR and all other neo-liberal policies.

What have been the policy instruments and programmes that have governments promoting neo-liberalism to facilitate this transfer of wealth from the poor to the rich, from the producers to the parasitic financiers?

The market above all else

Since the end of World War 2, the state has acted as an important player in the economy. In particular, the state acted as an instrument of redistribution of wealth via progressive taxation, social services expenditure and developing an extensive social welfare net.

In South Africa this redistributive role of the state only benefited the white sections of the population. Nevertheless, for close to 30 years, the social democratic framework saw the state's role as intervening in the economy and, among other aims, facilitating the redistribution of wealth from the rich to the poor.

Policies like GEAR have therefore sought to change the state's role from distributing wealth from the rich to the poor, to that of moving wealth from the poor to the rich. (Productive capitalists, who are also negatively affected by neo-liberalism, respond to this pressure by squeezing the workers even more.) The main method of effecting this transfer has been to promote the idea and practice that the 'free market' should allocate economic resources, opportunities and determine economic outcomes. In this way, the positions of the already powerful in the market are reinforced, and the weak are further weakened.

Government transformed taxation policies from progressive to regressive, and argued that its participation in the economy would 'crowd out' the private sector.

There is, however, a role for the state in the neo-liberal model. That role is to break the power of the dominated classes by promoting 'law and order' and 'zero tolerance' against any challenge to bourgeois power in general, and to the financier fraction in particular. Government promotes and enforces 'stable labour relations' and 'industrial peace'. These are reinforced by structural unemployment and the constant threat of unemployment to the working class. Another important role for the state is to facilitate its own weakening and promote domination of the 'market', by which we should read the domination of the financiers.

Once the state has been weakened (by its own actions) and the market dominates, the market in turn acts as policeman against any possible resurgence of redistributive tendencies in the state. Markets punish the state if there is any hint that the state might undertake policies that favour the dominated classes.

This punishment is dispensed through capital flight and higher interest rates on government debt. 'Fiscal discipline' is meant to keep the state from threatening the interests of the financier class.

Liberalisation of financial markets

An important weapon of neo-liberalism is the deregulation or 'liberalisation' of financial markets. This freeing of the movement of capital across borders and across industries:

- allows the new financier class the freedom not to commit itself to long-term investments that might stand in the way of sucking wealth quickly from where it is being generated;
- liberates capital from any social commitment;

❑ allows financiers to discipline governments not following their dictates.

Flexibility

GEAR means catastrophe for people in this country.

GEAR recognises that wages constitute an important redistributive tool. Through the struggles for higher wages, the working class ensures that it also gets a significant, though not the major, share of the wealth it creates. GEAR discourages higher wages, and 'allows' higher wages as long as they do not threaten the accumulation of wealth in the hands of the rich. As GEAR puts it, wage increases must not be higher than increases in productivity: read this to say wages may rise, as long as the rate of increase of wages is always lower than the rate at which wealth is created. This ensures that the financier class, which dominates the producer capitalists, will continue to get the lion's share of society's wealth. The result of this has been the growth of the working poor - workers who are sinking into poverty even though they are in employment.

'Labour flexibility' has promoted the long-term downward trend in wages. In practice, this flexibility has meant casualisation, subcontracting, retrenchments and other unacceptable forms of employment. In his first state of the nation address, President Mbeki was concerned about the financiers' 'perceptions' that the labour market is inflexible. The financiers are demanding another pound of workers' flesh, and Mbeki is offering this flesh as a sacrifice to appease these gods. The Minister of Labour's new 15-point plan promises to give attention to 'certain concerns which may be perceived to be obstacles to employment creation or the promotion of investment'.

'Inflation – our gravest enemy'

Neo-liberalism's spin doctors have created the myth that the public's prime enemy is inflation. While inflation is no friend of the poor, what these 'friends' of the people conveniently hide is that inflation is particularly bad for the financier class who holds its wealth in the form of money. For as inflation increases, their wealth is devalued.

GEAR has not met its promises.

Neo-liberal programmes' solution to inflation is high interest rates. This kills two birds with one stone. On the one hand, high interest rates protect the financier class's money from devaluing. On the other hand, high interest rates accelerate the transfer of wealth from those who produce wealth to the parasitic financiers.

Tariff reduction and competitiveness

The mantra of neo-liberalism is: open your country's economy and be competitive. For the neo-liberal this is meant to facilitate the rape of the weak by the strong. When weaker economies are integrated into the 'global economy' through tariff reduction, their entire industrial base (the basis on which they could if at all possible be competitive) is destroyed.

As for competitiveness, neo-liberals know that competition breeds monopoly. Like any competitive game, the game of international competitiveness produces winners and losers. Like any game, the strong are always the winners. Notwithstanding the good intentions that might accompany the launch of the Competition Commission in South Africa, the forces of the capitalist market are much more powerful than any Competition Commission.

GEAR creates poverty

Many critics correctly argue that GEAR has failed to tackle poverty in South Africa and elsewhere. This is part of the truth. The other part of the truth is that GEAR not only fails to eradicate poverty, but GEAR creates poverty. The increasing poverty that we see in South Africa today forms part of the global acceleration of poverty that is the unmistakable signature of neo-liberalism. In South Africa today, 20% of the richest households earn 52% of national income, and 40% of the poorest households earn just 11% of national income. These numbers make clear the meaning of GEAR's redistribution: it is the redistribution of wealth from the poor to the rich.

GEAR has very little to do with growth, employment and redistribution as its public relations men (and woman) would have us believe. GEAR is an attempt, quite a successful one we have to admit, to restructure social relations in a way which:

- ❑ reinforces the power of the financier class;
- ❑ made it possible for this financier class to suck wealth from the poor into its pockets.

GEAR is an instrument to concentrate wealth, as the sharp rise in mergers and acquisitions in the last few years also testifies. Shocking as it might seem, the ANC government has become the instrument that brings such a restructuring into being. ★

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