Empowerment Through Economic Transformation

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Chapter 2

South Africa and Globalisation

Oumar Bouare

Introduction

There is no general agreement on the definition of globalisation. Nevertheless, Held and McGrew's definition is used as the basis for this study. According to them, globalisation is a historical process that transforms the spatial organisation of social relations and transactions at the regional, continental and transcontinental levels and generates networks for the exercise of power (Held & McGrew, 1998, p. 220).

The main difference between globalisation and other historical processes resides in the economic manifestation of the former. Globalisation is characterised by the intensification of profit seeking abroad by states or businesses through the widening of world markets, the fast processing of information, the reduction in transport cost and time, the improvement and relocation of production units worldwide, and the voluntary participation of countries in the world trading system. In the past, trade sometimes formed an enclave isolated from the rest of the national economy. Today, all countries are engaged in international trade and nearly all countries trade significant proportions of their national income. Around 20% of the world output is traded and a much larger proportion is subject to international competition.

On the financial side, the globalised stateless Eurodollar or Eurocurrency market increased in volume from $50 billion in 1973 to $2 trillion in 1987 (Harvey, 1989, p. 163). Furthermore, the global financial market has developed in two directions. First, space has been eliminated and, as a result, time has been conquered. Because the opening times in particular localities overlap, twenty-four hour trading through electronic means is now possible, and arbitrage has become much more technical and frantic. The continuous trading extends to dealing in currency, stocks, securities and commodities. Second, financial markets have dedifferentiated so that banks have become stock dealers; building societies and credit unions have become banks; and so on. The entire financial system has become more difficult to control.

The globalisation of international trade and financial markets may negatively affect individuals as well as developing countries if their economic and social structures are unable to absorb the shock of transformation, as evidenced by the recent Asian economic crisis. The outcome can be a substantial reduction in national revenue as occurred in Korea and Taiwan, and growing unemployment or even social instability as occurred in Indonesia. Yet developed countries continue to press third world and developing countries to adopt hands-off economic policies in order to foster free trade and globalisation.

As "globalisation", "civil society" is a nebulous notion. The term "civil society" resulted from an attempt to protect individual rights against the absolute power of the state. Hobbes, Locke and Hegel made the state the guardian of individual rights. According to Hobbes, order and freedom are imposed by the state in order to protect individuals against savagery and anarchy (Hobbes, 1962). In the same vein Locke argued that wherever any number of people, in the state of nature, enter into society to make one people, that is, one "body politic" under one "supreme government", they abandon their own "executive power" and authorise the legislative to make laws for them in accordance with the public good of the society (1967, pp. 343-344). Echoing Hobbes and Locke, Hegel's state is the rule of reason in society, the incarnation of freedom and, by implication, the rationalisation of an otherwise "irrational", egotistical civil society (Narsoo, 1991; Sachikonye, 1995, p. 23). In other words, for these philosophers, people must choose: either they are ruled or they are free; they cannot be both.

Rousseau, on the contrary, argued that people could be both free and ruled if they rule themselves. That is, the transfer of sovereignty need not or should not take place: sovereignty not only originates in people, but it ought to stay there, too (Rousseau, 1968). The writings of Rousseau and other French philosophers such as Voltaire, Diderot and D'Alembert led to the French Revolution, which finally abolished the monarchy in France

and established a republic. A national assembly of the people was thus created to limit the executive power of the state and protect individual rights. Marx and Engels also dismissed the views of Hobbes and Locke as a recipe for domination. According to them, civil society is a creation of capitalism, a consequence of market relations, in which a particular class rules over others. They argued that civil society "emerges only with the bourgeoisie" (Keane, 1988). "If both state and civil society are creations of class domination, both must disappear when it ends. A 'socialist' civil society is thus impossible" (Friedman, 1991, p. 15).

The thinking was that the capitalist state and civil society would indeed disappear when capitalism ends. However, Friedman's argument hinges on confusion between the concept of the state and civil society on the one hand, and their representation in the capitalist mode of production on the other hand. For freedom and individual rights are not conceptually inherent to the capitalist mode of production only, even though the representations of the state and civil society in the capitalist mode of production are. With the creation of a socialist state another representation of civil society corresponding to the socialist framework occurs. Furthermore, Friedman's contention, implied in *Towards civil society* (Friedman, 1991, p. 15), is questionable because it supposes that civil society has never existed in South Africa. In addition, both capitalist and socialist states fail to adequately protect freedom and individual rights. In socialist states, for instance, religious freedom is rarely tolerated, while in European capitalist states, the legislative and judiciary are often under the control of the executive power of the state, leading to disregard for individual rights in some cases. Moreover, Montesquieu stressed that a corrupt legislative body undermines individual freedom and may end the republican state (1979, vol. 1, p. 244). These very considerations contributed to the separation of the executive, the legislative and the judiciary during the creation of the United States of America, so as to preserve the system of checks and balances in order to protect the freedom and individual rights of Americans (Wood, 1969). Despite the substantive protection of freedom in the United States, there is a myriad of associations representing civil society (Tocqueville, 1863) that lobby to protect their respective interests, including animal rights and the environment. Civil society then can be defined as that segment of society that does not represent the state and whose representations or representatives, if any, aim at protecting freedom, individual rights, animal rights and the environment at the national level.

From the arrival of the Dutch at Table Bay in 1652 to about 1770 there was relative peace between whites and blacks in South Africa. Bloodshed actually started when the white cattle farmers met with the Xhosas in the Fish River area, both groups seeking grazing for their cattle. This was the beginning of the spatial, social and economic *laagerisation* of South Africa's ethnic groups, which benefited the white segment of the population only. This history kept South Africans psychologically apart and left the majority of the society in abject poverty. With the introduction of the democratic government in 1994, which was greatly the result of the liberation struggle and international pressure, the spatial *laagers* weakened because South African citizens can now live wherever they want as long as they can afford to do so. However, the social and economic *laagers* are still in place. Due to the lack of social interaction between the different groups over the years, the social *laagers* seem ossified because South Africans by and large still think and act in ethnic terms, preventing the construction of an integrated civil society that can guarantee them protection against destructive international forces. Moreover, the economic *laagers* seem to have survived in South Africa despite the government's efforts to redistribute revenue through the Reconstruction and Development Programme (RDP) and the Growth, Employment and Redistribution (GEAR) programme.

Since globalisation is an inescapable worldwide historical process that can substantially reduce South Africa's national revenue, worsen its unemployment and create social instability because of its fragile social fabric, the question now is how South Africa can take advantage of globalisation to strengthen its social fabric, improve the economic conditions of its various ethnic groups and decrease its unemployment. This chapter, therefore, first examines the possible effects of globalisation on the South African civil society and economy. Second, it evaluates the

merit of hands-off and hands-on economic policies as they manifested in the economic history of developed and developing countries in order to determine the appropriate course South Africa should follow. Finally, it suggests some policies for the improvement of the economy and the strengthening of the social fabric in South Africa.

The state of civil society and its representations in the post-apartheid era

To assess the state of civil society and its representations in South Africa, we need to examine the relationship between these two entities in general.

From the creation of the United States through to the French revolution (i.e. absolutism to the creation of a democratic republic) civil society has seen the limitation of executive power, the fight for freedom, and the protection of individuals' rights, animals' rights and the environment. The growth of the power of civil society enabled it to ensure the creation of the executive, the legislative and the judiciary branches of government, each of which checks the other in the governance of a republic. The executive and legislative branches are directly elected by the people. The judiciary, however, is indirectly elected, that is, by the president, who in turn is directly elected by the people. Although these branches of governance act as checks on each other, the checks are not free from loopholes according to Montesquieu. Therefore, the intervention of the representatives of civil society as non-elected members of governance, who can check on these three branches, becomes a necessity if freedom and the protection of individuals' rights are to be secured in a republic. Thus the representatives of civil society may be considered as the fourth but non-elected branch of governance.

Because of the diversity of interests in the fourth branch of governance, there may be disagreement with the other three branches of governance. In a democracy, the interaction between the fourth branch of governance and the other branches can then be put in three broad categories. The interests of the fourth branch by and large converge with those of the three other branches of governance or the state. In this category, we have non-conflicting interaction with the state, and governance follows a smooth road. In the second category, the interests of the fourth branch of governance by and large diverge from those of the state. In this category, we have sharp conflict with the state, and governance may follow a rocky road, which may lead to an abrupt interruption of governance. In the third category, the interests of the fourth branch of governance sometimes converge with and sometimes diverge from those of the state. In this category, we have conflicting as well as non-conflicting interactions with the state. In this situation, governance follows a bumpy road, which happens in most democratic states where the ruling party incorporates the discontent of civil society in its political agenda to remain in power. If the ruling party cannot dissipate the discontent within civil society, this may lead to a peaceful replacement of the ruling party.

Within this context, what is the state of South African civil society and its representations in the post-apartheid era? Post-apartheid civil society has thus far highlighted six features. The first relates to the association between the struggle for democracy and those who joined the struggle, namely political parties, non-governmental organisations (NGOs), community-based organisations, churches, trade unions and voluntary associations. As representations of civil society, they had a common agenda as far as freedom and the protection of individuals' rights were concerned. When the transition to a democratic state occurred in 1994, the ANC, which is an inclusive political party, incorporated this common agenda into the South African constitution. This made the interests of the fourth branch of governance convergent with those of the state. Consequently, the governance of the Republic of South Africa has followed a smooth road since 1994 until now. This state of affairs will continue as long as the government continues to act in compliance with the common agenda. The current harmony between the fourth branch of governance and the other three branches will however dissolve if representatives of South African civil society and government no longer agree on government priorities. This has occurred in other democratic states throughout history. To retain the majority vote, however, the ANC could engage South Africans in a campaign of explanation of its policy whenever it is misunderstood by civil society.

The second feature of post-apartheid civil society relates to lack of strong opposition to the ANC among the other political parties (until recently when the Democratic Alliance was launched, merging the National Party and the Democratic Party). This stems from the lack of a unifying national theme in the agendas of the other political parties. The Democratic Alliance (DA) is still anchored in a separatist racial approach, undermining its ability to reach out to the majority of South Africans. Moreover, it is unlikely that black South Africans will allow the territorial division of the country. Indeed, the DA still has difficulty accepting the sea change in the country. The Inkatha Freedom Party (IFP) is regrouping its members around an ethnic viewpoint, which is unlikely to win the support of the majority of South Africans. The Pan-Africanist Congress (PAC) is still campaigning on the basis of the old African nationalist theme, alienating non-African groups. The DA is struggling to find a committed leadership and a political theme that appeals to the majority of South Africans. According to a 2000 HSRC poll, the DA remains the party of businessmen, preventing it from reaching out to the poor. All these parties exclude a segment of the population on account of their race, ethnic background or lack of wealth. Hence they will not draw support from the majority of South Africans, who abide by an inclusive ethic.

The third feature of post-apartheid civil society relates to social *laagerisation*. Although spatial *laagerisation* has loosened because South Africans can go and settle wherever they want in the country as long as they can afford to do so, social *laagerisation* of various ethnic groups is still alive in the country. People from different ethnic backgrounds hardly interact outside the workplace in general and in social movements in particular. Friedman (Friedman & Maphai, 1992, p. 46) noted this aspect of South African civil society when he wrote:

> Here, suffice it to say that, for many champions of "civil society", the social movements which resisted apartheid are its likeliest embodiments. But, if these movements are to become vehicles through which the citizenry can exercise the power denied them by apartheid, they must be both broadly representative ...

Maphai (Friedman & Maphai, 1992, p. 46) further pointed out that:

> they aren't [,] not necessarily because they don't want to be, but because apartheid ensured that they cannot be. Perhaps the most important reason is that apartheid has left most citizens without the capacity to participate fully in politics. To enforce one's right to participation and so to make democracy work requires more than the formal right to vote or, for that matter, to join a social movement.

The fourth feature of post-apartheid civil society relates to the demise of NGOs and the dependency of their operations on state and international donor agencies. It is generally agreed that a healthy democracy requires a vibrant, pluralistic and participatory civil society, of which NGOs represent an important part. If NGOs are strong and have a wide scope of action they can counter over-centralisation of state power. The organisational changes that were required of the new democratic government were costly in terms of both time and resources. Thus during the transitional period, NGOs were needed to assist the government in the delivery of services. Their technical expertise, administrative capacity and existing networks within under-served communities made them well suited for this role. However, a significant number of NGOs, including many that had existed for a long time, closed or drastically curtailed their operations. The reason is that the new government took on the delivery of certain services to the entire population, including segments that were denied benefits in the past. In addition, donors to NGOs changed their eligibility requirements for recipients, shifted their funding priorities, or simply suspended operations for a period long enough to threaten the survival of their beneficiaries. Hence service delivery by NGOs to under-served communities was reduced, as was their scope of action as representatives of civil society, and state power over civil society was expanded.

However, there is a growing tendency to structure the relationship between NGOs and the state in a corporatist way. This is where NEDLAC comes in. First, the explicit aim of NEDLAC is to bring civil society into decision making through the addition of a fourth chamber to the NEDLAC

structure—a development chamber. In accordance with this objective, the government conducted a national process to determine which NGOs would represent civil society. The selection criteria turned out to be so stringent and inappropriate that only three NGOs qualified. Second, a national coalition of NGOs has been formed. In August 1995, the National Non-Governmental Organisation Coalition was launched in Johannesburg. Although the idea that NGOs should organise themselves into one representative body originating with the government as a means of facilitating the implementation of the RDP, the main impetus has come from within the NGO community itself. The sector sees the formation of the national coalition as a means of providing more input into policy making and as a way to put NGOs on a more equal footing with government institutions in a new "social partnership". Third, the NGO community petitioned the government for the creation of an "enabling environment" for NGOs. A study was conducted to assess the legal and policy framework within which NGOs operate. This study formed the basis of recommendations to government on how to improve the framework. The study found that NGOs were hindered by a myriad of repressive policies, laws and structures inherited from the old regime. With the formation of the new government, the NGO community requested at least the elimination of controls, and preferably the development of legislation that specifically supports the work of NGOs. In particular, the NGO community called for the creation of a registry secretariat that, amongst other duties, would make available to the public the annual reports and statutory documents of NGOs. The overall aim was to facilitate the flow of information about NGOs and promote transparency within the sector. Finally, the Transitional National Development Trust was established in November 1995, through which all foreign, government and private-sector funding to NGOs was to be channelled. The government was in favour of such a centralised funding mechanism, as it could be used to ensure that NGOs meet the delivery goals of the RDP. However, tying NGO funding to compliance with government policies raised serious questions about the autonomy of the non-profit sector (James & Caliguire, 1996).

The fifth feature of post-apartheid civil society and its representations is that almost two to one South Africans rank their church ahead of their political party as the institution with which they identify most strongly (James & Caliguire, 1996). This gives to church representatives a strong moral voice in the governance of the country.

The sixth feature of post-apartheid civil society is the growing membership of trade unions and federations of trade unions, and a reduction in strikes. At the end of 1996, there were 248 registered trade unions and membership increased to 3,2 million. Total membership of all trade unions (registered or unregistered) amounted to over 41,4% of workers in 1996. The most important trade union groups or federations are the Federation of South African Labour Unions (FEDSAL), National Council of Trade Unions (NACTU) and the Congress of South African Trade Unions (COSATU), the latter being the largest federation with more than 1,7 million members. In March 1997, FEDSAL and the Federation of Organisations Representing Civil Employees (FORCE) merged to form FEDUSA, the second largest trade union federation in the country after COSATU, and the largest independent federation. It has more than 515 000 members. The three largest unions are the National Union of Mineworkers (NUM), the National Union of Metalworkers of South Africa (NUMSA) and the Southern African Clothing and Textile Workers Union (SACTWU). All are COSATU affiliates. Negotiation remains the most important method of preventing and resolving labour disputes. Collective bargaining has dominated industrial negotiations during the past few years and appears to be on the increase. Strike action in 1997 reached its lowest level since 1990. Only 650 000 man-days were lost, as opposed to 1,7 million man-days in 1996. In 1990, 2,2 million man-days were lost (Burger, 1998, pp. 234-235). Now let us examine the state of the economy.

The state of the economy in the post-apartheid era

An overview of the state of the South African economy is necessary if one wants to determine the possible effects of globalisation on the economy.

In 1997, the South African gross national product (GNP) at market prices totalled R579 714 million, exports of goods and non-factor services

(including gold) totalled R165 185 million, and imports R158 353 million. Foreign trade thus represented almost 55,8% of GNP. The balance on the current account of the balance of payment ran a deficit of 0,3% of the GNP in 1994; 2,1% in 1995; 1,4% in 1996; and 1,5% in 1997. The trade surplus decreased from R10 003 million in 1996 to R9 116 million in 1997. The value of merchandise imports rose from R117,7 billion in 1996 to R130,8 billion in 1997, i.e. an increase of 11,1%. At the same time, the value of merchandise exports increased from R101,5 billion to R114,1 billion, whereas the value of South African net gold exports decreased from R26,3 billion in 1996 to R24 billion in 1997.

In South Africa's three main export categories in 1997, precious and semi-precious stones, gold and other precious metals ranked first with R41 731 million; steel, aluminium, copper and nickel ranked second with R21 357 million; iron ore, coal and salt ranked third with R18 392 million. In contrast, in its five main import categories, machinery and mechanical appliances, electrical equipment and parts ranked first with R43 824 million; other unclassified goods ranked second with R19 047 million; oil ranked third with R16 958 million; chemical products and allied industries ranked fourth with R14 551 million; and vehicles, trains, aircraft, ships and associated equipment ranked fifth with R10 356 million.

South Africa exported mainly to five regions in 1996. Western Europe came first with 40,4%; the Far East came second with 19,8%; Africa came third with 18,0%; North America came fourth with 8,7%; and the Middle East came fifth with 7,5%. However, exports to Western Europe and North America were essentially primary and intermediary commodities, whereas exports to Africa, in particular Southern Africa, were manufactured goods.

The ratio of foreign debt to total export earnings declined from 126,1% in 1985 to 91,8% in 1996. Interest payment on foreign debt equalled 7,2% of total export earnings in 1996.

Concerning the capital account, there has been an outflow of capital from 1991 to 1993 because of the uncertainty about the outcome of the democratic change in South Africa. However, after the transitional period, the inflow of capital amounted to R4 328 million in 1994, increased to

R19 002 million in 1995, decreased to R2 669 million in 1996 and increased again to R20 246 million in 1997.

From 1993 to 1996 the increase in the inflation rate slowed down due to a restrictive monetary policy. In 1993 it was 9,7%; 9,0% in 1994; 8,7% in 1995; and 7,4% in 1996. However, it increased to 8,6% in 1997.

In nominal value the gross domestic product (GDP) increased from R385 092 million in 1994 to R529 557 million in 1997. The same nominal increase was displayed in the main sectors of the economy from 1994 to 1997. The agriculture, forestry and fishing sectors showed an increase from R19 802 million to R24 021 million; the mining and quarrying sectors from R33 172 million to R41 210 million; the manufacturing sector from R90 177 million to R126 669 million; the construction sector from R12 281 million to R15 190 million; the electricity, gas and water sectors from R15 506 million to R20 978 million; transport and communication from R29 030 million to R41 061 million; and trade from R61 450 million to R85 150 million. However, due to inflation, the real GDP growth rate contracted between 1990 and 1992 by 0,3 and 2,2% respectively, grew in 1995 and 1996 by 3,4 and 3,2% respectively and decreased by 1,7% in 1997. The latter decrease was due to the slowdown in domestic aggregate demand (Burger, 1998, pp. 209-225).

The financial sector is dominated by the South African Reserve Bank (SARB), which formulates and implements monetary policy and regulates the supply of money. The SARB is independent from the government, but assists the government and other members of the Economic Community of Southern Africa to formulate and implement a macro-economic policy. Currently, some 50 banks, including branches of nine foreign banks and four mutual banks, are registered with the Registrar of Banks. Furthermore, 60 foreign banks have authorised representative offices in South Africa.

Four major groups dominate the South African banking sector: ABSA Group Limited, Standard Bank Investment Corporation Limited, First National Bank Holdings Limited and Nedcor Limited. These groups hold 77% of the total assets of the banking sector. The remaining 23% of assets in the private banking sector are held by the other 46 banks, including the

mutual banks. On 31 December 1997, the 54 registered banking institutions had combined assets amounting to R550 billion. Insurance companies had the second most assets. In 1996, the total assets of short-term insurers amounted to R41,1 billion, according to the SARB; while the total assets of long-term insurers amounted to R457,8 billion. The other financial institutions are the Development Bank of Southern Africa (DBSA), which promotes economic development and growth; the Land Bank, which assists the farming community and agricultural corporations; stokvels or co-operative rotating schemes, which annually mobilise R1 billion among black communities for a variety of purposes; and unit trusts, which are investment vehicles that provide a means of participation in the equity market, bond market and money market for investors who may not have the time, the money or expertise to invest in these markets in their own capacity. The Johannesburg Stock Exchange provides a market where securities can be traded freely under a regulated procedure. It not only channels funds into the economy, but also provides investors with returns on investments in the form of dividends (Burger, 1998, pp. 251-259).

Unemployment is the most daunting problem in South Africa. Although there is disagreement on the exact number of unemployed workers in South Africa, according to most of the estimates the figure is around 35% of the workforce. The government tackled this problem by launching the RDP and then GEAR. However, none of these programmes pulled the country out of massive unemployment because they were weakened by the international economic environment. As a result, economic *laagerisation* is still well alive in South African society. This has prompted the government to undertake an affirmative action programme similar to the programme implemented to deal with the problem of "poor whites" before and during the Great Depression that started in 1929 and after the election of the NP in 1948. The current affirmative action programme seeks to eliminate the workplace colour bar, as well as gender and disability discrimination. There are three main targets. One is to increase black management to 50% and another is to more than double the proportion of women in middle and senior management from 11% to 30%. The third target is to increase to 2% the proportion of disabled people in the employ of public service (Burger, 1998, p. 232). The main difference between this affirmative action programme and the apartheid one is that it is not exclusively reserved for one racial group. It includes, for instance, white women who by and large did not have middle and senior management positions before the democratisation of South Africa, and white disabled people, who also suffered from employment discrimination.

The state of the economy in South Africa can be discussed in terms of six features. The first one is that South Africa, like many Southern African countries, is well endowed with a variety of mineral resources, which attracted foreign investors such as the British and Americans since the discovery of diamonds and gold. The second feature relates to the control of the financial sector by Afrikaners, which started around 1957 with their drive to take over the financial sector from Britain (Magubane, 1979, p. 109) and resulted in the investment of money in the country's infrastructure. This differentiated South Africa from most African countries where the basic infrastructure was not built up and the financial sector remained in the hands of foreign countries or multi-national corporations. The third feature relates to the growth of the economy as a result of the discovery of gold and diamonds, supported by the relentless exploitation of the non-white population's cheap labour. With democratisation and the subsequent increase in labour cost, one should expect a decrease in the return on domestic investment. This decrease will be exacerbated if South Africa is unable to significantly expand its export market and increase its domestic buying power. The fourth feature relates to South Africa's economic dependence on foreign trade. Foreign trade accounts for a much higher share of the GNP than in the case of many other countries (Burger, 1998, p. 209). This means that a downturn in the economy of South Africa's major trading partners can significantly harm the South African economy. The fifth feature relates to the bulk of South African export consisting of mineral resources, which are susceptible to depletion in the long run. The sixth feature relates to the massive unemployment, which will be a seed for social instability if the government is unable to correct this problem.

Globalisation can affect these features of the economy positively or negatively.

Addressing the effects of globalisation on South Africa

Against the background of the characteristics of post-apartheid civil society and the post-apartheid economy we now turn to globalisation.

Possible effects of globalisation on the economy

On the positive side, through liberalisation, South Africa now has free or almost free access to the markets of many trading partners. South Africa can take advantage of this situation by increasing its export to these countries if it can increase its production capacity and improve the quality of its products to make them more competitive abroad. This will enable the country not only to earn more profit from its exports, but also to substantially increase its employment if the bulk of the increase in its production capacity is not capital intensive. Second, the increase in imports due to globalisation intensifies the competitive pressure, which will lower prices and improve the quality of South African products if the domestic industry can survive foreign competition in the domestic market.

On the negative side, South Africa as a developing country borrows on international financial markets to handle its balance of payment deficit. Globalisation may therefore drain South African foreign reserves due to the Reserve Bank's intervention, or lead to the devaluation of the Rand if the Reserve Bank runs out of foreign reserves. This may compromise the economic prosperity of the country, as recently happened in Brazil and Mexico. Furthermore, because the South African economy is dependent on its exports, globalisation may negatively affect South Africa's main trading partners in Southern Africa and in developing countries such as those of East Asia, preventing the country from reaping the benefits of trade with these countries. Globalisation may also undo the control of the financial sector by South Africans by enabling multi-national financial companies to take over local companies. This may deprive South Africans from the driver seat of their economy, as happened in many African countries, and may ultimately prevent the country from investing in sectors that can propel it from the rank of a developing country to that of a developed country in the long run.

Besides its effects on the economy, globalisation also has positive and negative effects on civil society and its representations.

Possible effects of globalisation on civil society and its representations

On the positive side, because there is increasing pressure worldwide to take into account environmental issues, South African civil society may come to prioritise the protection of the beautiful landscape and wildlife of South Africa. Also, globalisation may prevent South Africa from taking the rocky road of governance because major international political role players increasingly reject undemocratic governments. Due to the strategic and economic importance of South Africa, developed countries may pressurise South Africa to steer clear of instability. The underlying motivation for such pressure is to secure returns on (or the profitability of) international financial investments and the uninterrupted supply of minerals such as diamonds and gold, whose abrupt shortage may negatively affect the world economy.

On the negative side, globalisation can create social instability. As we have seen, the lack of foreign reserves and the devaluation of the Rand due to globalisation may derail economic progress in South Africa, drastically reducing its national revenue. Since South Africa is socially still *laagerised*, the fight over the size of shares in the national revenue can pit ethnic or racial groups against one another, creating social instability that even the strong moral voice of the clergy may not be able to contain, as we have recently seen in Indonesia. Furthermore, one of the effects of globalisation in developed countries, such as Britain under Thatcher or the United States under Reagan, is the weakening of trade unions due to the call for flexibility in the labour market. The same phenomenon may happen in South Africa, leaving workers at the mercy of international finance in a country that already has high unemployment. This will further increase poverty and heighten social tension. In addition, although the independence of non-profit organisations such as NGOs is good for a democratic state, if these organisations are funded by foreign donors whose agenda is to dictate to the country their will, this may undermine

the sovereignty of the country and "corrode the influence" of the government as expressed by former President Mandela (Matheba, 1999, p. 143).

Hands-off vs hands-on economic policies

Given the strong advocacy for globalisation by developed countries, we need to examine the economic foundations of globalisation, namely Smith's government hands-off policy and free trade. This will be compared to List's government hands-on economic policy so as to determine the policy South Africa should follow to create a better life for all its people.

Smith's hands-off economic policy

When Adam Smith published *The wealth of nations* in 1776, the prevalent international commercial system was mercantilism, which contended that, in trade, what is gained by one nation is lost by another. According to mercantilists, wealth consists of gold and silver. If exports are greater than imports, there will be a net flow of gold and silver into a country as payment for its net export. This will result in an increase of wealth in that country. Therefore, government should restrain imports and encourage exports so that a country's exports would be greater than its imports. Such regulation will protect a domestic industry against competition from imported products (Smith, 1937; McCulloch, 1856).

Smith disagrees with the mercantilist system and challenges mercantilist views on trade in Book IV of *The wealth of nations* where he sets forth the economic foundations of laissez faire. However, the economic foundations of laissez faire, which leads to an increase in a country's wealth, are rooted in Smith's belief in the power of the invisible hand.

According to Smith (1937, pp. 421-422), as long as there is an insignificant difference between the profit that merchants can make at home and abroad, it is in their best interest to employ their capital at home, for a number of reasons. They are close to their capital; they are less knowledgeable about the laws of foreign countries than those of their own country; and they avoid transportation costs. However, it would be worth taking the risk of employing one's capital abroad when the profits are significantly higher in foreign than in domestic markets, although this happens in rare cases only, according to Smith. As a result, the individual's best interest, in general, is to employ his capital at home instead of abroad. Therefore, the implementation of high duties to create a domestic monopoly is uncalled for.

Since the best interest of the individual is to employ his capital at home, it follows that he will utilise his capital in a way that produces the greatest possible value at home. Then, according to Smith, the individual, without intending to, will contribute to an increase in the annual revenue of his society as if he were led by an invisible hand to do so:

> As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. (Smith, 1937, p. 423.)

It is, however, one thing to look for employment of capital at home that produces the greatest possible value, but quite another thing to find employment of this capital that corresponds to an individual's best interest and increases the annual revenue of the society. Here Smith relies on a power analogous to that of the invisible hand to show that mercantilists should not be so concerned with imported products, because without the implementation of high duties the annual revenue will increase due to the

help of an invisible mechanism. Smith does however not explain the invisible hand to his readers.

From Smith's analysis, it follows that mercantilists have no case against imported products because there will be too few of these products to hurt the domestic industry.

Since mercantilists do not oppose importation, Smith introduces his idea about foreign trade, known as Smith's theory of absolute advantage. First, Smith attacks statesmen and legislators because the individual knows his interest better than statesmen or legislators. Furthermore, the latter two groups cannot be trusted and can even be dangerous, particularly when they believe that they are qualified to regulate the economy. For they will give monopoly power to the domestic industry, a practice that is in almost all cases either useless or "hurtful" (1937, pp. 423-424). Therefore, according to Smith, a government hands-off economic policy is better than the economic regulation advocated by mercantilists to protect a domestic industry. However, will an owner of a domestic industry take into account the interest of the society better than statesmen and legislators when his short-term or long-term interest is paramount? (Coats, 1975). Yes, Smith believes that the interest of society is advanced when the owner of a domestic industry pursues his private interest, because in almost all cases regulation is either useless or "hurtful". It is useless, says Smith, when domestic products are as cheap as foreign products because in this case regulation goes against individuals' interest, in particular, and the national interest, in general. Thus, Smith believes that regulation by high duties always runs counter to the national interest because this prevents a country from specialising in the production of a good in which it has some advantages over other nations.

Smith also explains his advocacy of free trade. He argues that a prudent master of a family specialises in the production of a good in which he has some advantages over his neighbours and exchanges it against other goods produced advantageously by them, with mutual benefit. This clearly applies within a country and cannot be considered as folly there. The question, then, is whether it is also applicable across national boundaries. Smith believes it is:

> It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The taylor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a taylor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and purchase with a part of its produce, or what is the same thing, with the price of a part of it, whatever else they have occasion for.
>
> What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. (Smith, 1937, p. 424.)

It follows that the level of production attained by every nation in autarky will generate a surplus for each of them in free trade; in addition, as long as every nation can sell its products to others, every one of them has an incentive to increase its production beyond the level needed in autarky. Therefore, with free trade, world output will increase. Also, what is gained by one nation in trade is not lost by another, because the two trading partners benefit mutually. However, what happens if a nation has no advantages over any other nation in the production of commodities? Would it not be excluded from international trade? Smith does not discuss this possibility.

However, although what is prudence in the conduct of every private family might be prudence in the conduct of a nation, the production of a commodity in which a nation specialises may be hurtful if this production does not generate positive externalities[1] on other domestic industries in such a way that the nation can meet its needs of annual revenue in the long run. It would indeed be better for this nation to specialise in the production

of a commodity in which it has a disadvantage if positive externalities generated in this production can later on compensate for the losses incurred for not having specialised in the production of the commodity in which it has an absolute advantage. Smith does not discuss such a case.[2]

The issues raised in our analysis so far call for further critique. Smith's challenge to the mercantilist system is weakened by some of his assumptions and the implications of laissez faire. Only two main assumptions and two implications will be examined here.

First, Smith assumes that, in general, profits at home and abroad are equal or nearly equal, hence the best interest of every individual is to employ his capital at home and not abroad. If this is the case, why does Smith advocate free trade in the first place? As there would be no point, in general, for merchants to go abroad to make a profit, free trade would not be needed. An important difference between profits at home and abroad must exist to justify free trade.

Second, Smith's analysis of the improvement of the annual revenue of a society is rooted in his belief in the invisible hand, which is unknown and unexplained.[3] This invisible power or self-regulating market mechanism[4] weakens Smith's analysis because it is not clear how private and public interests are made compatible. Moreover, market failure[5] alone proves that private and public interests are not always compatible. When individuals pursue their private interests, their over- or under-allocation of resources to the production of goods and services can create recession or depression, which hurts a country despite the power of the invisible hand. The question then is whether government should intervene during market failure or shortage of private capital for undertaking an investment that will benefit a country in the long run. More precisely, is a government hands-off economic policy always more beneficial for society than government intervention?

Smith's critique of government intervention is based on its inefficiency or, more precisely, the inefficiency of government employees.[6] The inefficiency of government intervention in Britain is acknowledged by Mathias (1983, p. 76): "[In Britain,] [t]here was no real champion of laisse[z]-faire before Adam Smith ... however much [contemporary commentators] acknowledged that particular aspects of policy were frustrated by inefficient administration." The inefficiency of British administration between 1700 and 1914, however, does not necessarily mean that intervention is always inefficient compared with private undertakings. If the British administration were always inefficient, it would not have been able to run the vast British Empire for such a long time.[7] Smith's critique should rather be seen in the context of a long British tradition of demanding more and more freedom in the handling of private affairs. This can be traced to the Magna Carta of 15 June 1215. This great charter, which King John of England was forced to grant to his people at Runnymede, limited the role of government in decision making in England. Also, according to Mathias, the commitment of the business world to free trade contributed to the implementation of free trade policies.[8]

As Britain, the United States has a long tradition of opposition to government intervention. According to Mclean (1904, p. xvi), there was

> a steady determination of the colonists in all three types of colony to enjoy self-government in internal affairs. This persistent and unquenchable determination made the English colonies of that time different from all other colonies in the world. In vain did the English government set up a system of commercial restriction; the colonies evaded or ignored it. In vain did the English government, through Andros and through the courts, seek to annul the charters of New England; by passive resistance and active protest the colonists reasserted their privilege of discussion and legislation.

Moreover, when the different states joined the union and wrote the constitution the framers preserved the freedom of decision making of Americans through the separation of the powers of the three branches of government (executive, legislative and judiciary) and through the system of checks and balances that limited the role of the federal government (Wood, 1969, pp. 274-553).

As a result, compared with France (Zahariadis, 1995, pp. 52, 111-112, 117, 171-172), decision making concerning economic affairs in Britain and the United States has remained by and large in the hands of private business. According to Henderson (1961, p. 10), "in Britain in the age of laisse[z] faire there was no nationalized sector of the economy and there were virtually no State undertakings". The role of entrepreneurs in Britain's industrialisation can also be seen in Mathias (1983, pp. 136-159). Similarly, the role of private business has been pre-eminent in the United States industrialisation. Chandler (1977, p. 495) states that "the suggestion that the rise of big business has any relation to government and military expenditures (or for that matter to monetary and fiscal policies) has no historical substance". The important role played by entrepreneurs is also confirmed in Chandler (1977, pp. 13-205) and Clark (1949, vol. 1, pp. 367-378).

In France and Japan, in contrast, central government has played a leading role in domestic economic affairs throughout their respective histories. In France the handling of economic affairs by central government can be traced to Colbert's administration. His administration created a variety of manufacturing industries based on iron, glass, soap, silk, leather, textiles, etc. (Clément, 1874, vol. 1, pp. 284-287). The creation of manufacturing industries by central government in France is also acknowledged by Henderson (1961).[9]

In Japan, the important role played by central government in decision making concerning economic affairs can be traced to the Meiji Revolution. According to Beasley (1974), Japanese government intervention promoted the development of the agricultural and industrial sectors.[10]

These two types of historical setting, that of Britain and the United States on the one hand, and that of France and Japan on the other hand, have led to two different outcomes. In Britain and the United States the power of decision making on economic affairs has remained by and large in the hands of private business. In the United States, this feature is called "traditional American values", that is, "hostility to the active, centralised state, deep commitments to social individualism and economic competition" (Keller, 1981, p. 65).

In France and Japan, central government has retained the power of decision making on economic affairs. In French society this is often called "the French dirigiste" tradition.[11] This tradition has contributed to attracting to government jobs highly trained people of the Ecole Polytechnique, Ecole Normale Supérieure, University Pierre and Marie Curie, Ecole Nationale d'Administration, the Sorbonne, etc. As civil servants they acquire more prestige than as businessmen and are assured a lifetime job. Similarly, in Japan, government agencies attract the most talented graduates of the best universities of the country, such as those of Tokyo, Kyoto and Osaka. Furthermore, after retiring from government jobs at the age of 50 or 55, this elite moves to powerful positions in private enterprises (Johnson, 1982, pp. 20-21). This situation must be contrasted with that in the United States where highly trained people of the Ivy League schools are attracted to private business (Kilpatrick, Cummings & Jennings, 1964) and the concomitant prestige.

In France and Japan, therefore, government jobs are handled by highly trained people, whereas in the United States the highly trained people are generally employed in private business. Consequently, government intervention is generally welcome in France and Japan, but unwelcome in the United States with its long tradition of opposition to government intervention and lack of confidence in government effectiveness, because well-trained people generally handle private businesses instead of government jobs.[12]

Thus, Smith's critique against government intervention should be judged against the historical setting of Britain and the United States. At the most basic level, if a government hands-off economic policy is more beneficial for a society in the long run than intervention, then the hands-off economic policy should be implemented. However, as France and Japan's industrialisation has shown, a government hands-off economic policy is not always better than government intervention.

In addition to the two assumptions of Smith's theory of laissez faire that weaken this theory, two implications also weaken it.

The first is that with free trade every nation gains if it specialises in the production of a commodity in which it has an absolute advantage in

production. However, if a nation has no absolute advantage over any other nation in the production of commodities, it will be excluded from international trade. David Ricardo attempted to strengthen Smith's theory of absolute advantage by eliminating this weakness. Thus Ricardo used Torrens's idea of comparative advantage and introduced to the economics literature a theory of comparative cost advantage, which also applies to countries that do not have absolute advantages in international trade (Torrens, 1808, 1815; Chipman, 1965). These countries could still gain from trade in Ricardo's framework.

However, since Ricardo's theory implicitly assumes that two trading countries (Britain and Portugal) produce in autarky two commodities (cloth and wine) that are exchangeable, his theory does not apply to most third-world countries, which are excluded from international trade because they do not produce minerals and manufactured products that can be sold abroad.

In addition, the theory of comparative profit advantage shows that Ricardo's theory of comparative cost advantage is inadequate for explaining international trade. The reason is that countries are not involved in trade because they can produce a commodity at a lower cost than their trading partner, but because they can make a greater profit (Bouare, 1998). Therefore, Ricardo's theory was insufficient. That is, free trade is not always mutually beneficial for two trading partners, as advocates of globalisation want us to believe.

The second implication of Smith's theory that weakens it is that it is sometimes folly for a nation to specialise in the production of the commodity in which it has an absolute advantage in production. After all, the nation can be hurt if the production of the specialised commodity does not generate positive externalities on other domestic industries to provide the required annual revenue in the long run. Instead, it will be better for this nation to specialise in the production of a commodity in which it has a disadvantage in production, if positive externalities generated in this production can later on compensate for the losses it has incurred for not having specialised in the production of the commodity in which it has an absolute advantage. For instance, when Germany and France started their industrialisation, Britain had both an absolute and comparative advantage over them in manufacturing industries because it was the first industrial nation in Europe. However, instead of specialising in agricultural products, Germany and France specialised in manufacturing industries through government intervention. This enabled them later to compete with Britain on an equal footing (Henderson, 1961, pp. 10-11). Now let us turn to List's challenge to Smith's laissez faire theory.

List's hands-on economic policy

Smith's analysis of the increase in annual revenue of a society is questionable in countries that do not have a long tradition of opposition to government intervention. Thus, Smith's analysis can be challenged both on theoretical and empirical grounds. The theoretical challenge is made by Friedrich List. The essential components of List's argument can be outlined in eight points.

First, List notes the difference between political economy and Smith's cosmopolitical economy. Smith does not take into account nations, but the entire human race and single individuals.[13]

Second, to oppose Smith's cosmopolitical view, List takes into account the concerns of a single nation against those of other nations. What, he asks, makes a nation richer and more powerful than others? According to List, this happens when that nation exports more manufactured goods and imports raw materials.[14]

Third, why does Smith's cosmopolitical economy not recognise that the origin of wealth is in manufacturing industries? Because, according to List, Smith did not recognise the capacity of domestic manufacturing industries to increase national wealth, based on his belief that the revenues of a nation depend only on the sum of its material capital. Further, Smith did not take into account the fact that an economic policy that creates and protects manufacturing industries attracts a mass of foreign mental as well as material capital into a country, in contrast to manufacturing industries that originate of their own accord.[15]

Fourth, Smith should have recognised that international commerce consists mainly in the exchange of manufactured goods against raw materials and natural products; and that the colonial relationship was maintained because of such exchange. Colonial relationships will cease as soon as colonies have the power to manufacture for themselves.[16]

Fifth, if Smith had realised that manufacturing industries and agriculture were the source of a country's productive powers and independence, he would not have given priority to commerce at the expense of manufacturing industries and agriculture.[17]

Sixth, Smith would have understood that the increase in Britain's productive powers, or more precisely the increase in its wealth and economic power over a century lay in the creation of its manufacturing industries. Therefore, he would have understood that this could not be achieved in another nation if that nation's young manufacturing industries were put at risk by allowing competition between them and the developed manufacturing industries of Britain.[18]

Seventh, Smith's followers fail to understand that infant industries should be protected because they can never become perfectly developed manufacturing industries under perfectly free competition. Also, Smith's followers believe that a nation can attain the highest degree of prosperity and power through absolute freedom of trade, whereas history proves the contrary. In addition, Smith's followers think that protection gives a monopoly to the domestic industry and results in indolence in the industry, whereas domestic industries create competition among themselves. Furthermore, they fail to understand this point because they want us to believe that protective duties benefit manufacturers at the expense of agriculturists, whereas it is known that it is domestic agriculture that gets enormous benefits from the existence of domestic manufacture.

Eighth, Smith's followers emphasise the evils caused by contraband when protective duties are implemented. However, these evils are insignificant compared with the enormous influence and power that domestic industry exerts on the prosperity of a nation.[19]

It should be understood, finally, that Britain owes its power, wealth, commercial supremacy and manufacturing to its civil, mental and religious liberty, and excellent political system. Other nations are capable of raising themselves to the same degree of liberty as well, because nature has not denied any nation the requisite means for a manufacturing industry.[20]

Besides List's theoretical challenge, Japan challenges Smith's analysis on the empirical level. Japan would not have been successful in its modernisation during the Meiji Revolution without government intervention (Beasley, 1974, pp. 141, 144, 146-147, 150). And Japan is today able to compete on equal footing with the oldest industrialised nations because of the co-ordination of its industries by MITI (Ministry of International Trade and Industry), a government agency (Johnson, 1982). German and French industrialisation is also an empirical challenge to Smith's analysis because government intervention fostered their industrialisation, thereby enabling them to catch up with Britain (Henderson, 1961, pp. 10-11). More recently, Alice Amsden (1989, pp. 13-15) stated that Korean industrialisation is due mainly to government intervention that has distorted the market by setting the relative prices "wrong", and disciplined big business by penalising poor performance and rewarding good performance.[21] Therefore, countries that do not have a long tradition of opposition to government intervention have followed List's hands-on economic policy in the early stage of their industrialisation.

Even in a country such as the United States, which has a history of opposition to government intervention, there were cases of market failure where government intervention was accepted because it was more beneficial for the society than a hands-off policy à la Smith. Opposition to government intervention in the United States is reflected in the cases handled by its Supreme Court between 1895 and 1937. Bernard Schwartz (1963, p. 137) states:

> The augmentation of the high tribunal's role was a direct outgrowth of the development of substantive due process, and the manner in which it was used by the Justices as a restraint upon government interventions in the economic sphere.

However, in spite of this opposition, when private businesses were unable to handle the economic affairs of the United States during the economic depression in 1929, the mobilisation for World War II and the recessions of 1949, 1957 and 1960, government intervention was accepted. According to Chandler (1977, pp. 495-496):

> Far more important ... has been the government's role in maintaining full employment and high aggregate demand. Again, it was only after World War II that the government inaugurated any sort of systematic policy to maintain demand and thereby support the mass market. One reason the federal government took on this responsibility was that the depression clearly demonstrated the inability of the private sector of the economy to maintain continuing growth of a complex, highly differentiated mass production, mass distribution economy.
>
> The only institution capable of stopping this economic descent was the federal government. During the 1930s, it began to undertake this role, but with great reluctance. Politicians and government officials moved hesitantly. And managers and businessmen, those who had the most to gain, were among the most outspoken critics of the few moves that were made.

This was the turning point in government intervention. The efficiency of the federal government in the handling of economic affairs was not disputed during this period of economic difficulties. "The visible hand" of the federal government was needed.[22]

These examples show that, instead of relying solely on private undertaking and an invisible power or self-regulating market mechanism à la Smith, government interventions have been used either to increase national revenue or to prevent it from decreasing.

Moreover, during the eighteenth century it was not private undertaking alone but also government intervention that fostered the industrialisation of developed countries by protecting domestic industries against foreign competition, and by providing capital to undertake industrialisation when private sectors accumulated insufficient capital.

Britain used ship building and the Navigation Acts—the latter supported by Smith in spite of his belief in free trade[23]—to expand its trade, to exclude Dutch and French companies, and to increase its wealth. This in turn provided some capital for engaging in business in the private sector. According to Mathias (1983, p. 79), "[o]ne-third of ships under

British merchant marine colours were said to be colonial-built in the mid-eighteenth century", i.e. built by the government.

> The two most important single features of peace-time strategy were therefore to encourage shipping capacity and the numbers of seamen. Here was a standing argument for keeping the Dutch and the French out of all trade between Britain and the colonies, and out of British coasting trade. Where political authority existed it should be used to encourage self-sufficiency in trade and in shipping. In the mid-seventeenth century British shipping could not stand up to Dutch competition without political advantage. If imperial trade was to provide a forcing house for shipping capacity and a nursery for seamen, it had to exclude the Dutch, and subsequently the French, by legislation. (Mathias, 1983, pp. 79-80.)

Besides ship building by the government, the Navigation Acts contributed to the expansion of British trade and thereby its wealth.[24] This expansion also contributed to the accumulation of capital and the development of Britain's insurance and financial systems.[25] Although the state did not undertake directly the building of manufacturing industries in Britain's industrialisation, it appears that from the sixteenth to the nineteenth century, government intervention, through ship building and the Navigation Acts, enhanced British foreign trade. This in turn strengthened British industrialisation because of the increase in demand for consumer goods and the accumulation of capital.

In the case of the United States, Alexander Hamilton, as Secretary of the Treasury, challenged in his 1791 *Report on manufactures* Smith's laissez faire economic policy by stating that "industry if left to itself, will naturally find its way to the most useful and profitable employment", and proposed instead the protection of domestic industries. The report was written when Hamilton was called upon to inform the House of Representatives about the manufactures of the country and "the means of promoting such as will tend to render the United States independent of foreign nations for military and other essential supplies" (Hamilton, 1968, pp. xv, xvi). Essentially, Hamilton argued against Smith's inference that "manufactures, without the aid of government, will grow up as soon and as fast as the natural state of things and the interest of the community may require" (Hamilton, 1968, p. 26).[26]

Hamilton thus proposed the imposition of duties on foreign iron, copper, lead, flax, hemp, wool, etc. in order to protect the United States infant industries (Hamilton, 1968, pp. 301-314). He concluded his *Report on manufactures* by stating:

> In countries where there is great private wealth, much may be effected by the voluntary contributions of patriotic individuals; but in a community situated like that of the United States, the public purse must supply the deficiency of private resource. In what can it be so useful, as in promoting and improving the efforts of industry? (Hamilton, 1968, p. 320.)

In addition to the implementation of government interventions proposed by Hamilton's *Report on Manufactures*, several other tariffs were adopted in the United States in the nineteenth century to protect domestic industries. Mathias (1983, pp. 289-290) stated:

> But American and German exports were growing fast ... Thus it can be claimed that the first major external disrupting influence was the industrialization of the United States and Germany and their development towards being creditor nations in the world economy, running surpluses on their balance of trade. As a consequence of this came tariff barriers to protect their industries. At the same time as American metal and textile industries conquered their own national markets, excluding some traditional British exports of hardware, metal products, tin-plate and textiles, American steel production surpassed Britain's in 1886. The first main tariff against imported manufactures came in 1861. Its average level was 47 per cent at the end of the 1860s. In 1890 the Mckinley Tariff had raised this to 50 per cent; by 1897 the Dingley Tariff was up to 57 per cent.

Therefore, even in countries such as Britain and the United States, which have a long tradition of opposition to government intervention, government intervention has been used to foster industrialisation. In the United States it was achieved through the protection of domestic infant industries and in Britain through ship building by the government and the protection of trading zones.[27] Furthermore, Smith himself acknowledges that modern European states developed through government intervention (1937 [1976], vol. 1, pp. 405-406).

These policies suggest that advanced industrial countries and new developing countries have followed List's hands-on instead of Smith's hands-off economic policy in the early stages of their industrialisation.

Policies for improving the economy and strengthening the social fabric

As we have seen, free trade and government hands-off economic policies are not necessarily conducive to an increase in national revenue of a developing country, nor were these policies adopted by developed countries when they were at the early stage of their industrialisation. Yet throughout the world, developed countries advocate globalisation and free trade and pressurise developing countries to open their markets. The reason is that developed countries have reached a stage of development in the capitalist mode of production in which their respective domestic markets can no longer absorb their production. As a result, the sustainability of their production depends on the existence of outlets. If these countries cannot export the surplus of their output they will face either economic recession or depression. According to President Clinton's 1997 State of the Nation speech, an important part of the United States economic growth is due to American exports. It is therefore not surprising that the United States is a vocal supporter of globalisation, free trade and the opening of foreign markets, whereas in the nineteenth century, as we have seen, it erected a wall of protection to secure its economic interests. However, no recognition is given to the need of third-world and developing countries to industrialise and protect their economy in the way developed countries have done. On the one hand, developed countries are

pressing third-world and developing countries to open their goods and capital markets to financial capital with which developed countries are well endowed; on the other hand, they are closing their labour markets, through their immigration laws, to labour with which third-world and developing countries are well endowed. If developed countries really believe that globalisation is beneficial for the world, why do they keep the labour of third-world and developing countries at bay? The reason is simply that the free flow of labour between countries, in the name of globalisation, is detrimental to the economy and standard of living of developed countries. For one thing, free labour migration will sharply decrease the wage rate in developed countries, creating a reserve of cheap labour and a lower standard of living. Second, these countries will become overcrowded and economically unmanageable. The free flow of international financial capital to third-world and developing countries will have a similar effect on the economies of these countries. The issue at hand is therefore the protection of one's economic self-interest. The question, then, is whether South Africa should remain a subordinate and dependent country as most African countries, which are unable to take the path of industrialisation, or whether South Africa's government should adopt a hands-on economic policy to catch up with other developed countries, as Germany, France and Japan did in the course of their respective economic histories. If South Africa adopts a hands-on economic policy, what can be done to minimise the negative effects of globalisation and guide South Africa on its road of industrialisation?

Policies for improving the economy

Because South Africa is unable for the moment to stand up to the pressure of developed countries due to its dependency on foreign direct investment and export of manufactured products, any confrontation with developed countries on the issue of globalisation is bound to be an economic disaster for South Africa. Hence developed countries need to be convinced that impoverishing South Africa in particular and developing countries in general by preventing them from securing the base of their industrialisation, in the name of globalisation or free trade, may bring short-term economic benefits for developed countries, but long-term disadvantages for both developed and developing countries. The reason is simply that impoverished countries will not be able to buy products from developed countries. As a result, developed countries will not be able to sustain their production process, which is increasingly dependent on export markets. For instance, from the 1960s to the middle of the 1970s, former colonial powers were exploiting the raw materials of their former African colonies, feeding them with some financial assistance and preventing them from undertaking their own industrialisation. After the 1973 oil shock, former colonial powers no longer had the financial means to support their former African colonies, which remained agricultural countries by and large. Agriculture, however, generated little profit and fewer positive externalities than manufacturing. All these African countries were consequently handed over to the IMF for structural adjustment or privatisation of their small-scale state-owned enterprises. However, this did not improve their economic situation.[28] If the former colonial powers had allowed these countries to undertake their industrialisation, these countries would have set up manufacturing industries, which would have spurred their economic take-off. This in turn would have created an important market for former colonial powers because these countries would have obtained enough revenue from the sale of their manufacturing products to buy industrial products from their former colonial powers. That is, both the former African colonies and former colonial powers would have gained from the industrialisation of the former colonies because of the increase in the purchasing power of the latter. In other words, many African countries would not have been excluded from the bulk of international trade today,[29] and developed countries would have had a bigger market for their exports.

Also, because it is better for a country to have a wealthy neighbour than an impoverished one, as a market for its consumer goods and to reduce immigration, the United States recently bailed out Mexico and pushed the IMF to bail out Brazil when the economies of these two countries collapsed.

It follows that developed countries are better off when third-world and developing countries are allowed to set up a manufacturing base for their industrialisation. It could be argued that multinational companies could set up their plants in developing countries, providing them with an industrial infrastructure. However, the problem with multinational companies is that they have no loyalty towards the host country. Once the return on their investments (or profitability) declines, they close down their plants, creating high unemployment in the host country. By way of contrast, if a company or industry is domestically owned, the owners will walk an extra mile to ensure its improvement. In addition, even if multinational companies make a lot of profit, they are unlikely to invest the profit in improving the host country's economic infrastructure. This seems inherent to multinational companies whose *raison d'être* is to extract the maximum profit with no economic and social accountabilities towards the countries in which they are operating. In contrast, the profit of a domestic industry is generally invested in the country to increase and improve production; the country is not reduced to a consumer or wage-earning country in this case.

Allowing foreign direct investments in a country is good for an economy in the long run as long as the country has its own industrial base or starts setting up its own domestic industries. This is so because foreign direct investments increase competition, reduce product prices for domestic consumers and improve the quality of domestic products if the domestic industry is not driven out of business in the domestic market by foreign competition.

According to Calitz (1998, p. 3), South Africa's balance of payment has always been a constraint on economic growth. The reason is that the current account (i.e. exports and imports of goods and services and unilateral transfers such as gifts made by individuals and the government to foreigners, and gifts received from foreigners) runs into a deficit when the economic growth rate rises to about 3% during the upward phase of the business cycle or the expansion of economic activity. In other words, a high interest rate set by the Reserve Bank attracts foreign capital to South Africa. This in turn increases national revenue, i.e. economic growth.

However, this capital inflow also increases South African imports, as the economy starts growing, to the point that imports exceed exports, creating a deficit in the current account. To correct this deficit, South Africa borrows on foreign financial markets and/or sells part of its reserves. This becomes problematic when interest payment on debt increases and the country's reserves are significantly reduced. Ultimately the value of the Rand depreciates and foreign capital is withdrawn, slowing down investment and export and even resulting in a financial crisis similar to the Asian crisis. To do away with this problem, Joffe, Kaplan, Kaplinsky and Lewis (1995), in their report on the Industrial Strategy Project, proposed an import liberalisation policy and an export-led economic policy. According to them, the slow growth in the economy in general and in South African manufacturing output in particular is due to low total factor productivity.

This explanation was criticised by Bell who, using Helleiner's findings (1994, p. 10), argued that the slow growth is rather due to the unstable macro-economic environment. This includes the oil price shocks, global recession, large variations in international interest rates, the debt crisis, balance of payment crises, a large fiscal deficit, high inflation, currency devaluations and austerity programmes. Bell (1995) then suggested an import substitution policy, although he did not explain why or how this policy should be implemented.

In addition, the labour productivity issue, i.e. output per worker, arises only when there is a shortage of manufactured products in the domestic and foreign markets. This means that domestic and foreign consumers are willing to buy South African manufactured products but they are not available in domestic and foreign markets. As long as there is no shortage of South African manufactured products in domestic and foreign markets, the real issue is rather South Africa's competitiveness in terms of price and quality as compared to foreign manufactured products. Domestic manufacturers would not increase their production capacity if foreign equivalent products were preferred to South African products in the domestic and foreign markets, even if the South African level of productivity is high. It could, therefore, be argued that the slow growth in South African manufacturing industries or the lack of increase in their

output is due to the preference for foreign manufactured products in terms of their price and quality. However, even if South Africa's manufactured products were better in terms of price and quality there would still be a slow growth in manufacturing industries because of the sharp reduction in the revenue of South African trading partners (Africa, East Asia) in the aftermath of their financial crises. Furthermore, the South African balance of payment constraint is unlikely to be resolved by the export-led economic policy because the increase in South Africa's exports is eroded by a greater increase in its imports, which increases the deficit in the current account.

One solution may be to set up production plants for products that represent the bulk of South African imports such as machinery, mechanical appliances, electrical equipment, chemical products, vehicles, trains, ships, base metals, plastics and rubber. These plants should be a joint venture of government and the private sector so as to reduce government expenditure on their creation. This will avoid a huge budget deficit and a subsequent increase in tax rate and inflation due to budget deficit financing and an increase in demand respectively. The participation of the private sector in the management of the plants will ensure efficient management through private sector control. However, the South African government must have the majority of the shares to ensure the pursuit of government's economic growth policy. The domestic industries will, first, conquer the domestic market because there will be a demand for their products in South Africa; second, the industries will export their products to SADC countries; and, third, they will export them to other African countries. South Africa could even have a monopoly on African markets due to its advanced industrial structure if African governments perceive South Africa as the preferred partner. This will bring South Africa's industries to maturity, which will later help the country to engage in fierce competition with developed countries in their domestic markets. The domestic industries should include at least one high-tech industry such as an electronic, computer or satellite industry, so that the gap between South Africa and developed countries will not be widened further in the information age, while South Africa's other manufacturing industries reach a stage of maturity.

In the beginning the performance of South Africa's industrial products will not be high. However, South Africa should not fall in the trap of an inferiority complex and abandon its industrialisation, because learning is part of industrialisation. For instance, in the 1950s, Japanese industrial products were laughing matter because of their low performance. Today, however, no one laughs about Japanese industrial products. To further the efficiency of these industries, training in engineering schools should be strengthened to meet the demand for manpower in these industries. The government can later on sell off the industries to South African entrepreneurs when they are able to compete with foreign industries.

This type of import substitution policy will prevent imports from growing faster than exports and eliminate the South African balance of payment constraint. This will also avoid major financial crises in South Africa and retain financial control in South Africa's hands, enabling South Africa to invest in sectors that can propel the country from a developing country to a developed country in the long run. This does not mean that South Africa should abandon its agricultural sector. Indeed, the industrial sector should be used to foster agricultural production in order to meet the demand for basic agricultural products in the country.

Moreover, since South Africa earns the bulk of its revenue from the export of gold and other mineral resources, one should expect the depletion of these natural resources in the long run. Therefore, the country should start building up its manufacturing industries as an alternative source of revenue in order to maintain its standard of living. If this does not happen now, South Africans will be fighting each other over a shrinking piece of national revenue when natural resources are depleted.

Furthermore, this economic policy will significantly reduce unemployment in the long run, lessening the anxiety of unions in their bargaining with employers, thereby reducing social tension and the number of strikes.

Policies for strengthening the social fabric in South Africa

Neither the private nor the government sector can actually absorb South Africa's unemployed people. To significantly reduce unemployment in the

short run and dissolve the social and economic *laagers* in the long run, a huge national programme of job creation should be put in place by the government.

First, the Department of Trade and Industry (DTI) should identify the products that are in greatest demand in South Africa and in SADC countries. This is to ensure that there will be a demand for these products. Second, private funds should be raised to implement this programme. The money raised should be deposited in a bank to generate interest. This is aimed at avoiding additional government expenditure, which will lead to a budget deficit or tax increase. Part of the funds should be used to establish training schools nationwide to train unemployed people over three years to set up and run small businesses and learn business ethics and discipline. The school will be a business brigade. This will avoid sloppy training. Third, after their training, the graduates will go into partnership with people from other racial groups. They will borrow money from the funds raised to start a business in order to sell in South Africa and in SADC countries some of the products identified by the DTI, and will be supervised until they pay back the money they have borrowed with interest. Thereafter they will run their businesses on their own. However, they will not be allowed to sell their businesses. This business partnership of people from different racial backgrounds will bring the partners closer to each other in the long run because they will be striving for the same goal, i.e. to make profit. Thus this programme not only will be in line with the ANC's policy of racial integration but will also significantly reduce unemployment and dissolve the social and economic *laagers* in the long run. In addition, it will reduce the crime rate because many previously unemployed people will be integrated into society because they will be running and protecting their own businesses.

To make the fund raising appealing to donors, they will be reimbursed after a few years when part of the funds raised as well as payments from the graduates deposited into banks have generated enough revenue. Contrary to other job creation programmes, this programme will be sustainable because of its embeddedness in training and discipline, successful business strategies and demand-driven production.

Finally, to ensure that NGOs effectively participate in service delivery in under-served communities without undermining the sovereignty of South Africa, funds given by private donors should be channelled into a private foundation controlled by the government and an independent commission. The government and the commission should jointly identify needy communities and set up small community-based businesses that will be guided to re-invest their profit into their own communities. With a view to service delivery, established NGOs with good track records and new NGOs with the capacity to effectively serve needy communities should be selected. The established NGOs will erode the current bottlenecks in service delivery and the new NGOs will prevent the waste of money and ensure proper service delivery. An increase in the number of effective NGOs will not only speed up service delivery but will also strengthen civil society, because the more effective NGOs are with diversified public agenda, the stronger will be the democracy in South Africa.

Conclusion

In this chapter, it was first argued that South African civil society is the outcome of its history and that civil society representatives may be considered as the fourth non-elected branch of democratic governance. This branch has enabled us to explain why South Africa is following the smooth road of governance. By using history as point of departure, better insight was gained into the state of the economy and the spatial, economic and social *laagers* of civil society, as well as the possible positive and negative effects of globalisation on the post-apartheid society. Second, the foundations of globalisation, namely free trade and a government hands-off economic policy, were analysed. Smith's theory of absolute advantage and Ricardo's theory of comparative cost advantage, both of which advocate free trade, were found to be inadequate for explaining international trade. Furthermore, these theories did not prove that free trade is necessarily mutually beneficial for two trading partners, as the advocates of globalisation want us to believe. Smith's hands-off and List's hands-on economic policies were thereafter examined. From this examination emerged the finding that developed countries have used a hands-on economic policy in the early stage of their industrialisation to catch up with more industrialised countries. As South Africa wants to move from the state of being a developing country to that of a developed country in the long run, it should employ the hands-on economic policy. Finally, some economic and social policies were proposed in order to avoid the negative effects of globalisation on South Africa, improve its economy and strengthen its social fabric. It was argued that South Africa should find an alternative source of revenue by building the basis of its manufacturing industries before its natural resources, which are the mainstay of its export revenues, are depleted. The hands-on economic policy, based on import substitution, will also provide a solution for South Africa's balance of payment constraint, low economic growth and high unemployment. The implementation of a nationwide job creation programme is suggested for unemployed people so as to create racially mixed business partnerships that will dissolve South Africa's social and economic *laagers* in the long run.

Notes

1 Positive externalities are incidental benefits of backward or forward linkages generated on other industries by the production process of a firm. For instance, to produce potato chips, one needs potatoes and frying pans. To produce cars, one needs iron, plastic, rubber, electronic equipment, highways, gas, etc. As a result, in comparison with the production process of potato chips, that of cars has more positive externalities, which generate more revenue.

2 Although this critique may seem unfair to Smith because externality is a modern idea, it cannot be dismissed because of its importance in the increase of the wealth of nations. See the industrialisation of Germany, France, Japan and South Africa respectively in Henderson, 1961; Clément, 1874; Beasley, 1974; Johnson, 1982; Magubane, 1979.

3 The usual interpretation of the invisible hand in the economic literature is self-interest or self-love. Perhaps this ambiguity is due to the lack of an explicit definition of the invisible hand in Smith's framework.

4 To increase the annual revenue of a nation, the pursuit of self-interest or self-love must be allowed to regulate the market in such a way that it will prevent

the annual revenue from decreasing or being stationary. That is, the invisible hand can be thought of as a self-regulating market mechanism.

5 Again, although market failure is a modern idea, yet it cannot be dismissed as an unfair critique of Smith, because it is associated with the self-regulating market that is at the core of advocacy for a free market as set out by Smith.

6 See Smith [1937] 1976, p. 423, where he attacks statesmen and legislators.

7 Our contention rests on British administration's ability to run the British Empire. For the inefficiency of British administration and its improvement, see Cell (1970), Myers (1970, pp. 75-105) and Brewer (1989, pp. 64-87) respectively.

8 "The commitment of the business world to free trade is usually said to date from 1820 when the London Merchants petitioned Parliament for free-trade policies, their document containing 'all the great principles of commercial policy', as Huskisson acknowledged ... The real promoters of the petition were the members of the Political Economy Club, founded by Ricardo and his friends to promote the new truth in economics ..."

"The next twenty years did see the support of commercial opinion mount, until the real attack on the old system came with Peel in 1841" (Mathias, 1983, pp. 269-270).

"When Peel was returned in 1841 his government was secure enough in Parliament to be able to implement free trade policies at last, and collect an extra £5 million a year by the income tax to replace lost duties ... Duties on the import of raw cotton and wool (already low) were abolished. Those on non-Empire timber were slashed from 55s. per load to 10s.; the coffee duties reduced from 1s.3d. per lb to 2d.; sugar from 63s. per cwt to 34s ... More important for the landed interests, the duties on cattle, meat, fish, butter, fat and cheese were abolished or reduced.

So by 1846 the Corn Laws were the last isolated citadel under attack, and a mine had been sprung under them by allowing Empire wheat in without duty ... The Navigation Acts were abolished without any parliamentary squall in 1849 ... Undoubtedly the final acknowledgement of the new system was Cobden's free-trade treaty with France in 1860" (Mathias, 1983, pp. 274-275).

9 "In France and Germany, on the other hand, the climate of public opinion was entirely different. In those countries government were expected to promote the expansion of manufactures in many different ways. The establishment of nationalized coal-mines, ironworks, textile, mills and other factories and the granting of State aid to private firms were regarded as normal methods of

fostering economic prosperity ... The years 1740-1815 marked the initial phase of a transition in the structure of the economy ... But in the second half of the eighteenth century there were manufacturers, merchants, civil servants and ministers of State on the Continent who realized the importance of changes that were taking place in Britain. They saw that a new industrial economy based upon coal, iron, machinery, steam-power and factories was making Britain both wealthy and powerful. They believed that similar opportunities lay within their grasp but that what was being accomplished in Britain by private enterprise alone could hardly be achieved on the Continent unless the State gave effective assistance and encouragement to private manufactures ...

During Colbert's administration the French Government spent some 7,500,000 livres in promoting the cloth, silk, lace and carpet industries. Colbert established State workshops and granted subsidies to privileged 'royal manufactures'" (Henderson, 1961, pp. 10-11).

10 "[N]ew strains of plants and seeds were imported; Western farming implements were bought and tried. All this was done on government initiative ..." (Beasley, 1974, p. 141).

"In railway building, a quite new form of enterprise, the role of government was at first much greater. It controlled all construction up to 1877 ...

The development of the manufacturing industry followed a similar pattern: of state initiative at first and private later ... In the first phase government activity took the form of established and operating factories ... Thus silk-reeling plants of French and Italian type were opened at Tomioka and Maebashi in 1870 ... The manufacture of tiles, glass and chemicals was also started. Modern cotton-spinning was introduced in the Nagoya era in 1870 ... Altogether such government-owned concerns numbered fifty-two by 1880, to say nothing of three shipyards, ten mines and five munitions works" (Beasley, 1974, pp. 146-147).

"[I]n this first stage of modernization it was the Meiji government that provided the leadership, the framework and many of the stimuli without which success could not have been achieved" (Beasley, 1974, p. 150).

11 "[T]he distinctive French dirigiste tradition continued. Corporate financing during the early nineteenth century was subject to the review of local authorities, the ministries of Commerce and Interior, and the Conseil d'État" (Keller, 1981, p. 60).

12 The handling of government jobs by the elite is not the only factor that contributed to the economic development of countries that have a long

tradition of government interventions. We argue that government interventions are accepted in these countries and that their elites handle government jobs successfully.

13 "I perceived that the popular theory took no account of nations, but simply of the entire human race on the one hand, or of single individuals on the other. I saw clearly that free competition between two nations which are highly civilised can only be mutually beneficial in case both of them are in a nearly equal position of industrial development, and that any nation which owing to misfortunes is behind others in industry, commerce, and navigation, while she nevertheless possesses the mental and material means for developing those acquisitions, must first of all strengthen her own individual powers, in order to fit herself to enter into free competition with more advanced nations. In a word, I perceived the distinction between cosmopolitical and political economy. I felt that Germany must abolish her internal tariffs, and by the adoption of a common uniform commercial policy towards foreigners, strive to attain to the same degree of commercial and industrial development to which other nations have attained by means of their commercial policy" (List, [1841] 1928, p. XXVI).

14 "If, on the one hand, restrictions on the importation of raw products are a hindrance to the development not only of the manufacturing, but also of the agricultural productive powers of State, on the other hand, an internal manufacturing productive power produced by restrictions on the importation of foreign manufactures, stimulates the whole agricultural productive powers of a State to a degree which the most flourishing foreign trade is never able to do. If the importation of raw products makes the foreign country dependent on us and takes from it the means of manufacturing for itself, so in like manner, by the importation of foreign manufactures, are we rendered dependent on the foreign country, and the means are taken from us of manufacturing for ourselves. If the importation of products and raw materials withdraws from the foreign country the material for the employment and support of its population and diverts it to our nation, so does the importation of manufactured fabrics take from us the opportunity of increasing our own population and of providing it with employment. If the importation of natural products and raw materials increases the influence of our nation on the affairs of the world and gives us the means of carrying on commerce with all other nations and countries, so by the importation of manufactured fabrics are we chained to the most advanced manufacturing nation, which can rule over us almost as it pleases, as England rules over Portugal. In short, history and statistics alike prove the correctness of the dictum expressed by the ministers of George I:

that nations are richer and more powerful the more they export manufactured goods, and import the means of subsistence and raw materials" (Smith [1937] 1976, pp. 217-218).

15 "He wrongly maintains that the revenues of the nation are dependent only on the sum of its material capital. His own work, on the contrary, contains a thousand proofs that these revenues are chiefly conditional on the sum of its mental and bodily powers, and on the degree to which they are perfected, in social and political respects (especially by means of more perfect division of labour and confederation of the national productive powers), and that although measures of protection require sacrifices of material goods for a time, these sacrifices are made good a hundred-fold in powers, in the ability to acquire values of exchange, and are consequently merely reproductive outlay by the nation.

He has forgotten that the ability of the whole nation to increase the sum of its material capital consists mainly in the possibility of converting unused natural powers into material capital, into valuable and income-producing instruments, and that in the case of the merely agricultural nation a mass of natural powers lies idle or dead which can be quickened into activity only by manufactures. He has not considered the influence of manufactures on the internal and external commerce, on the civilisation and power of the nation, and on the maintenance of its independence, as well as on the capability arising from these of gaining material wealth ...

He has not taken into account, that by the policy of favouring native manufacture a mass of foreign capital, mental as well as material, is attracted into the country.

He falsely maintains that these manufactures have originated in the natural course of things and of their own accord; notwithstanding that in every nation the political power interferes to give to this so-called natural course an artificial direction for a nation's own special advantage" (List, 1928, pp. 226-227).

16 "The exchange of manufactured goods for natural products is the fundamental condition on which the position of the present colonies continues. On that account the United States of North America seceded from England as soon as they felt the necessity and the power of manufacturing for themselves, of carrying on for themselves navigation and commerce with the countries of the torrid zone; on that account Canada will also secede after she has reached the same point; on that account independent agricultural manufacturing commer-

cial States will also arise in the countries of temperate climate in Australia in the course of time" (List, 1928, p. 270).

17 "Commerce is also certainly productive (as the school maintains): but it is so in quite a different manner from agriculture and manufactures. These latter actually produce goods, commerce only brings about the exchange of the goods between agriculturists and manufacturers, between producers and consumers. From this it follows that commerce must be regulated according to the interests and wants of agriculture and manufactures, not vice versa ...

This perversity of surrendering the interests of manufactures and agriculture to the demands of commerce, without reservation, is a natural consequence of that theory which everywhere merely takes into consideration present values, but nowhere the powers that produce them, and regards the whole world as but one indivisible republic of merchants. The school does not discern that the merchant may be accomplishing his purpose (viz. gain of values by exchange) at the expense of the agriculturists and manufacturers, at the expense of the nation's productive powers, and indeed of its independence" (List, 1928, p. 259).

18 "The circumstance that there are no limits to manufacturing production (especially since it has been so extraordinarily aided and promoted by machinery) except the limits of the capital which it possesses and its means of effecting sales, enables that particular nation whose manufacturing industry has continued for a century, which has accumulated immense capitals, extended its commerce all over the world, dominated the money market by means of large institutions of credit (who are able to depress the prices of fabrics and to induce merchants to export), to declare a war of extermination against the manufacturers of all other countries. Under such circumstances it is quite impossible that in other nations, 'in the natural course of things' (as Adam Smith expresses himself), merely in consequence of their progress in agriculture, immense manufactures and works should be established, or that those manufactures which have originated in consequence of the commercial interruptions caused by war should be able, 'in the natural course of things,' to continue to maintain themselves. The reason for this is the same as that why a child or a boy in wrestling with a strong man can scarcely be victorious or even offer steady resistance. The manufactories which constitute the commercial and industrial supremacy (of England) have a thousand advantages over the newly born or half-grown manufactories of other nations" (List, 1928, pp. 299-300).

19 "The school fails to perceive that under a system of perfectly free competition with more advanced manufacturing nations, a nation which is less advanced

than those, although well fitted for manufacturing, can never attain to a perfectly developed manufacturing power of its own, nor to perfect national independence, without protective duties ...

It seeks to adduce the benefits which results from free internal trade as a proof that nations can only attain to the highest degree of prosperity and power by absolute freedom in international trade; whereas history everywhere proves the contrary.

It maintains that protective measures afford a monopoly to inland manufacturers, and thus tend to induce indolence; while, nevertheless, all the time internal competition amply suffices as a stimulus to emulation among manufacturers and traders.

It would have us to believe that protective duties on manufactured goods benefit manufacturers at the expense of agriculturists; whereas it can be proved that enormous benefits accrue to home agriculture from the existence of a home manufacturing power, compared to which the sacrifices which the former has to make to the protective system are inconsiderable.

As a main point against protective duties, the popular school adduces the expenses of the custom-house system and the evils caused by contraband trade. These evils cannot be denied; but can they be taken seriously into account in comparison of measures which exercise such enormous influence on the existence, the power, and the prosperity of the nation" (List, 1928, pp. 316-317).

20 "To what causes England owes her manufacturing and commercial supremacy, we have shown in our fifth chapter.

It is especially owing to her civil, mental, and religious liberty, to the nature and excellence of her political institutions, that the commercial policy of England has been enabled to make the most of the natural riches of the country, and fully to develop the productive powers of the nation. But who deny that other nations are capable of raising themselves to the same degree of liberty? Who would venture to maintain that nature has denied to other nations the means which are requisite for manufacturing industry?" (List, 1928, pp. 322-323.)

21 Korea's recent economic difficulties rest on the shift of its economic policy from that of a controlled economy to that of a fully opened economy. It abandoned the dual interest rate system that promoted the export sector of its industries and allowed its industries to borrow in the international financial market as they wish, instead of receiving funds from the domestic banking system at a lower interest rate, which was guaranteed by the state. It is worth

noting that this was the IMF's prescription. When it became evident that Korean industries borrowed at high interest more than they could pay back in the near future, international financial capital moved away from Korea and financial and economic chaos followed.

22 "During World War II attitudes changed. The mobilization of the war economy brought corporation managers to Washington to carry out one of the most complex pieces of economic planning in history. That experience lessened ideological anxieties about the government's role in stabilizing the economy ... By the 1950s, however, businessmen in general and professional managers in particular had begun to see the benefits of government commitment to maintaining aggregate demand. They supported the efforts of both Democratic and Republican administrations during the recessions of 1949, 1957, and 1960 to provide stability through fiscal policies involving the building of highways and shifting defense contracts" (Chandler, 1977, pp. 496-497).

23 Perhaps, Smith perceived the Navigation Acts as acts for the defence of Britain rather than as acts against free trade.

24 "The prize sought by the Navigation Acts reserving inter-Empire trade to British and colonial merchants and ships was more than just the direct trade in the goods concerned ... Much other wealth followed in the wake of ships that carried cargo ...

The effects of this in the remaining years of the seventeenth century revealed a startling development in the pattern of British overseas trade. Total exports had risen from £4.1 million in the 1660s to £6.4 million in 1700" (Mathias, 1983, p. 84).

"One of the most important areas of investment in the century after 1650, in fact, flowed from this great increase in shipping capacity, probably the greatest demand on investment resources created by the expansion in overseas trade ... Through the eighteenth century, in peacetime, over four-fifths of the shipping using British ports was British - much of it protected by the navigation system" (Mathias, 1983, pp. 85-89).

"When the eighteenth century opened 78 per cent of British exports were going to Europe; in 1800 only 45 per cent. On the import side the same is true: over 50 per cent of imports came from Europe in 1700; by 1800 this had fallen to 31 per cent.

Trade with Portugal and Spain...opened Portugal for British cloth and allowed Portuguese wines to be imported into England...Imports of finished linen, on

the other hand, steadily declined, as a native linen industry got under way and cut out the need for imports" (Mathias, 1983, pp. 90-93).

25 "Commercial (and imperial) expansion prepared the way...Much capital accumulated as a result of this trade, particularly in the west coast ports, Glasgow, Liverpool, Bristol ... Merchants were in the partnerships of some mills; considerable mercantile credit flowed to the manufacturer from the merchant ...

Foreign trade was also the matrix from which sprang modernizing institutions and attitudes. Most early bankers, whether in London, or provincial centers like Bristol, Glasgow and Liverpool had their business linked to foreign trade and merchants. Underwriting risk in cargoes and the ships themselves was (with fire insurance) the principal gestation for the growth of the insurance business. Legal instruments of paper credit, bills of exchange and the like, had principally evolved with foreign trade. Attitudes of accumulation, calculation, profit-seeking, investment and maximizing were those of a commercial society long before the age of the factory" (Mathias, 1983, pp. 95-97).

26 "These have relation to the strong influence of habit and the spirit of imitation; the fear of want of success in untried enterprises;...the bounties, premiums, and other artificial encouragements, with which foreign nations second the exertions of their own citizens, in the branches in which they are to be rivalled.

Experience teaches, that men are often so much governed by what they are accustomed to see and practise, that the simplest and most obvious improvements, in the most ordinary occupations, are adopted with hesitation, reluctance, and by slow gradations...to produce the desirable changes as early as may be expedient, may therefore require the incitement and patronage of government...

The superiority antecedently enjoyed by nations who have preoccupied and perfected a branch of industry, constitutes a more formidable obstacle than either of those which have been mentioned, to the introduction of the same branch into a country in which it did not before exist. To maintain, between the recent establishments of one country, and the long matured establishments of another country, a competition upon equal terms, both as to quality and price, is in most cases, impracticable. The disparity, in the one, or in the other, or in both, must necessarily be so considerable, as to forbid a successful rivalship, without the extraordinary aid and protection of government" (Hamilton, 1968, pp. 266-267).

27 For further discussion, see Lazonick (1991). For a journalistic presentation, see Fallow (1993).

[28] According to Sawyerr (1999), "it is common ground that, after a decade and more of structural adjustment, 'hardly any country has successfully completed its [adjustment program] with a return to sustained growth' (United Nations, 1998, p. 124), nor has there been any fundamental structural transformation in the economies of any of the adjusters (Serageldin, 1993, p. 95). The economies continue to be dominated by low-technology agriculture, especially in relation to food production for local consumption; industrial production, particularly manufacturing, stagnates, in some cases, even declines; persistently high levels of poverty and unemployment, as well as the erosion of social services for the majority of the population continue to cause very grave concern—all this in the teeth of resorted economic growth!"

[29] For the marginalisation of African countries in world output, see Castells (1996, pp. 25-26).

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