The Post-Election Challenge

By **Ben Turok**

In the second week of June, the World Bank stated that "tight monetary policy", among other issues, "will keep growth subdued in South Africa". We also know that the Treasury wants to curb state spending and the Reserve Bank to pursue low inflation. In short, the prospects of expanding the economy to create more jobs, and thereby reduce inequality, are bleak. For the ANC and the Tripartite Alliance, maintaining the present conditions of insufficient job creation and a highly unequal society is a highly dangerous prospect.

This tight policy approach also goes against new international wisdom that inequality "damages the economy, and efforts to remedy it are not harmful", to quote the Financial Times (London, 22 April 2014). Indeed, it argues that "a more equal society will not hinder growth". Even our own Business Day – which has for years advocated unhindered free markets and excoriated interventions by the state for redistribution – is now allowing opinion pieces warning that failure to redistribute will lead to revolt.

But no one is fooled. The establishment running the economy shows no signs of wilting or willingness to change the structure or rewards system to reduce inequality and overcome huge social distress. Before the election, the Financial Times (28 April) stated editorially, "South Africa has failed to fulfil the hopes of those who queued to vote in 1994… the legacy is insecure… The racial harmony Mandela bequeathed is at risk".

The evidence is now beyond question. The pay gap between executives and employees is the biggest in the world, and widening. Executive pay is large, but larger by far are the bonuses and share handouts. These gifts are supposed to be for good performance by highly competent management – but no, many of the companies like Amplats and the rest are loss-makers, deeply in the red.

No wonder ratings agency Moody's gave a negative outlook for the banking system in May this year. Executives and many receivers of dividends are doing very well indeed, while the real economy (that is, the productive sectors of mining, manufacturing and agriculture) stagnates.

The Treasury tends to argue that all this negativity is a hangover from the 2008 financial crisis, but others point to the many other developing countries which have recovered rather well.

The fact is that the election shows declining support for the ANC, particularly in the metros, which are the most politically sensitive areas in the country. The ANC cannot pin its hopes for survival on rural voters alone, even if they were solidly behind it. Also, since a national liberation movement is meant to represent the interests of the people as a whole, the ANC cannot be satisfied that only a third of potential voters (36 percent) bothered to vote for it.

And so we look to the promises of a "radical socio-economic transformation" as a function of the "second phase of the transition" in the recent State of the Nation address. There can be no doubt of the expectation across the country that the problematic state of national finances should not stand in the way of the infrastructure programme or expansion in the wider real economy.

If government chooses contraction, tighter monetary policies, reduced state spending and the rest, we will surely slip rapidly into recession, which means job losses, increasing inequality and the resultant social unrest.