"What if ?" changing the structure of the economy

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This paper was prepared for the first seminar in a series on prospects for economic transformation, 2 November 2009, at the Development Bank of Southern Africa

We must distinguish between incremental *reforms that relieve the plight of the poor and those measures that actually transform the economic base. If we could muster the necessary political energy, what strategy would we adopt to restructure and transform the economy in order to overcome the economic and social legacy of apartheid? And what is the cost of not doing so? Why do we spend so much energy on minor changes in incomes, etc., when the absolute levels are wholly unacceptable? What are we arguing about, really? We need to remember the conviction that is repeated consistently in policy documents: unless the fundamental structure of the economy is transformed, the consequences of apartheid cannot be adequately addressed.*

THE PERSISTING STRUCTURAL LEGACY

> "The structure of our economy has not changed significantly in a hundred years – it is still dominated by extractive and related industries." – *Green Paper on National Strategic Planning*. The Presidency, 2009: 7

> "Colonial relations in some centres of power, especially the economy, remain largely unchanged." – *Strategy and Tactics*. ANC, 2009: 14

The economic history of South Africa can largely be told in terms of the dominance of a few large conglomerates controlled by families through pyramid structures (Black and Roberts, 2009: 216). "The economy remains highly concentrated. The five conglomerate groupings led by Anglo American still controlled 44.6 percent of the capitalisation of the JSE in 2006, though this is well down from 83.8 percent in 1990" (ibid: 227).

The apartheid state industrialised through strong policy interventions, particularly in the mining, energy and resource-processing industries. Hence the real economy is strongly linked to capital- and electricity-intensive mining and mineral processing activities, which in turn account for the bulk of exports. "The dominant firms have often attained pre-eminence, in part through the legacy of state support and protection for heavy industry" (ibid). State-owned enterprises (SOEs) continue to supply electricity to large energy-intensive industries, such as aluminium smelters, at significantly lower prices than for other industries (ibid: 237).

The modern economy has been built on primitive accumulation. As Karl Marx (1974: 724) put it: "The secret discovered in the old world... [was] that the capitalist modes of production and accumulation have for their fundamental condition the annihilation of self-earned private property, in other words, the expropriation of the labourer"; and "so long, therefore, as the labourer can accumulate for himself... the capitalist modes of production are impossible" (ibid: 718). Elsewhere he discusses how colonial powers forced the colonised people away from their own economic relations to serve the means of capital, often by violent means.

QUESTION: Since apartheid was essentially a system to create a cheap migrant labour force deprived of its own means of accumulation, how has the present system altered that?

WHAT HAS CHANGED?

By the mid-2000s, South Africa was still a classic mining-based economy. "A striking feature since 1994 has been the rapid growth of resource-based (and capital-intensive) industries... which far outstripped manufacturing... Exports remain dominated by minerals and resource-intensive manufactured products. Minerals remain about 60 percent of total merchandise exports" (Black and Roberts, 2009: 221). As for other exports, "a significant portion of exports is due to re-export of imported products by South African distributors to southern African markets" (ibid: 222).

Although mining contributed about 10 percent of GDP and employment, it still accounted for half of exports. Thus it is uncomfortably dependent on commodity prices internationally. "IDC finance in the second half of the 1990s continued to be oriented to large, capital-intensive, resource-based activities" (ibid: 225).

State revenues are uneven, the benefits are confined to a small group, and so inequalities remain large. The mines are islands in the economy and there is little downstream benefit.

Although change is apparent, it reflects incremental reform and not transformation. "The pattern of industrial performance under democracy shows strong continuity: resource-based heavy manufacturing industries have remained the strongest performers during 1994–2007... in part due to strong support through tax breaks and IDC finance" (ibid: 238).

CONTRIBUTIONS TO GDP (%), 2006

Financial and business services	21.6
Manufacturing	18.0
Trade	15.4
Government	13.9
Transport	10.8
Mining	6.4
Other services	5.9
Construction	3.3
Electricity, gas, water	2.4
Agriculture	2.4

Source: *The South African Economy*. IDC. 14 March 2007

The growth path remains fragile, dependent as it is on excessive consumer credit, elite consumer spending, and portfolio flows. We remain captive to the "far-reaching exertion of market power by large firms, unilaterally and in oligopolies through co-ordinated behaviour" (ibid: 239).

We seem to have followed the economic models in the advanced economies that have seen major bubbles with disastrous consequences. The excessive financialisation in the economy, which does not finance investment in productive activity, is a glaring issue in South Africa.

QUESTION: What are the obstacles to fundamental change in the economy?

STRUCTURAL FINANCIAL IMBALANCES

The high deficit on the current account is dependent on foreign financial inflows that are mainly hot money rather than foreign direct investment (FDI). Dividend and interest payments to foreigners with capital outflows for 2007/8 were about 3.5 percent of GDP.

The final judgment on economic performance must be in terms of comparisons with other middle-income countries. Black and Roberts (2009: 213) record the following data:

SOUTH AFRICA'S ECONOMIC PERFORMANCE IN COMPARISON

	South Africa	Others (Hungary, Poland, Turkey, Brazil, Chile, Malaysia)
Income per capita	$10 880	$7 252
GDP growth (1994–2005)	3.3%	4.6%
Gross fixed capital formation	15.9%	24.6%
Industrial value added per GDP	26.9%	37.1%
Growth in exports	4.6%	9.4%
Total exports per GDP 2005	27.1%	37.9%

The deficit of almost 10 percent of GDP on the current account is attributed to the following:

- balance of trade, including gold: 1.5%
- net service payments: 4%
- net income payments: 3.5%
- current transfers: 1%.

QUESTION: The relatively high income per capita reflects incomes of the rich rather than the total population. Is there scope for far higher taxation of the rich?

THE STRUCTURE OF VALUE CHAINS

The weight of support has continued to focus on larger scale capital-intensive activities (Black and Roberts, 2009: 215). "The combination of liberalisation and incentives failed to achieve the improved export performance sought" (ibid: 224). We have not managed beneficiation well: one-third of the pulp produced in South Africa is processed elsewhere (ibid: 225). We are net importers of fertilizers. Effective rates of protection on manufactured goods were reduced from 42.4 percent in 1989 to 14.8 percent in 2003 (ibid: 214).

Many documents from the department of trade and industry (DTI) have discussed improving the value chain of production. Some now argue that the most viable value chains for employment creation are agriculture, light industry, construction and services. We need a thorough discussion on the role of medium and heavy industry in South Africa's future economic advance.

Why were the proposals by the Macro-economic Research Group (MERG) on promoting agro-industry not acted upon?

QUESTION: Why has the DTI not imposed beneficiation and downstream value addition?

SOCIAL EFFECTS

Because of the skewed economy, our levels of unemployment, poverty and inequality remain very high by world standards, with inequality remaining at 1994 levels. There is an inequitable distribution of income, assets (and consequently wealth) and opportunities – perhaps the worst aspect of ANC rule.

The data on employment is often interpreted in different ways giving different percentages. Here is the hard data, as provided by Kingdon and Knight (2009: 300).

EMPLOYMENT AND UNEMPLOYMENT, 1995 AND 2003

	1995	2003
Labour force		
narrow definition	11.6m	16.1m (note the large growth in labour force)
broad definition	13.6m	19.9m (includes "discouraged" workers)
Waged employment	8.2m	9.5m
Self-employed	1.4 m	2.1m
Unemployed		
narrow definition	1.9m	4.5m
broad definition	4.0m	8.3m
Unemployment rate		
narrow definition	17	28
broad definition	29	42

The absorption rate – which reflects the number of adults who say they are employed and is in many ways a better indicator than the unemployment rate – stood at 48 percent (narrow), 56 percent (broad) in 1995. By 2003, it improved to 54 percent (narrow), 67 percent (broad) (ibid: 303). The employment statistics are bedevilled by the large flow of new entrants into the labour pool, so percentages distort the situation. Most job creation since 2000 has been in construction, retail and public and private services. In general, government policies have not led to job creation.

Also, taking the economy as a whole, there has been a substantial increase in the working poor, particularly in the informal sector which held 34 percent of the 2003 labour force (ibid: 309). The real earnings of waged employees fell slowly, by 1.6 percent, between 1995 and 2003 (ibid: 307). According to Kingdon and Knight (2009, 322) "there is a general consensus that poverty rose over the post-apartheid period", but not all researchers agree with this finding.

QUESTION: Why have inequalities not been addressed more vigorously?

ONCE AGAIN, GEAR

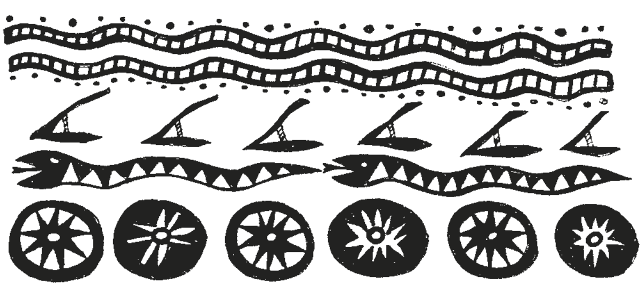
Was the Growth, Employment and Redistribution (GEAR) policy an attempt to curb a downward spiral or to deal with the structural legacy of the economy? Most would say it was the former. It brought a decisive shift in fiscal policy, reversing the increase in government spending begun in 1994. The most critical aspect was the decline in spending on infrastructure, mostly capital. At the same time it introduced costly trade liberalisation and international competitiveness as central objectives, as well as some privatisation of SOEs.

While spending on social services, health, education, welfare, police and prisons remained steady, spending per capita effectively fell due to population growth of about 7 percent. Indeed, most government statistics omit the effect of population growth and often refer to nominal rather than real spending, thereby concealing the actual spending impact.

After GEAR's adoption, the growth rates fell from 4.2 percent in 1996 to 1 percent in 1998, rising again to 4.2 percent in 2000. Growth fluctuated between 3 and 5.5 percent until 2007, when the economy crashed. In the years following, one in ten workers in the formal sector (excluding agriculture) lost their jobs, with the biggest losses in mining, construction and transport: key sectors for a growing economy. "Particularly large job losses in absolute terms were in sectors which underwent major restructuring, partly as a result of import liberalisation" (Black and Roberts, 2009: 218).

In sum, GEAR reached some of its targets, such as the fiscal deficit, real government consumption, and some reduction in inflation. However, it failed to reach its targets in interest rates, private sector investment, GDP growth and employment. This means that the cost of reducing the deficit and tariff reductions was entirely disproportional to the social outcomes, particularly the more than 100 000 jobs lost in manufacturing.

QUESTION: Should fiscal discipline be enforced so strongly in a deeply skewed and highly unequal underdeveloped economy?



ADDRESSING THE INHERITED STRUCTURE

We shall make slow progress unless we address the concentration of economic power. This includes tackling the profits made by the large corporations. "Altering the industrial development trajectory will need concerted action across public institutions" (Black and Roberts, 2009: 227). Black and Roberts (2009: 233) further argue that "the main question is not ownership as such, but the changes to the conditions that underpin conduct and performance".

Are prescribed assets wholly out of the question? Can we not be more bold in mobilising the vast financial assets in the country and held abroad by our citizens and deploy them to expand our economy in a way that provides employment, has a multiplier effect in the economy and not only enhances the social wage, important as that is ?

The state has a variety of financial and non-financial instruments which it can use to leverage change, including the development finance institutions (the IDC, DBSA, NEF, Land Bank, etc.), SOEs, particularly Eskom and Transnet, the Public Investment Corporation and many regulatory mechanisms.

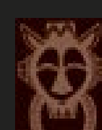
We have been shy of addressing the huge wealth of the rich. Income inequalities, high as they are, do not reflect the even larger inequalities of wealth, which include the massive assets of the rich: multiple properties, houses, land, cars, airplanes, etc. Should we not have a stronger wealth tax?

QUESTION: How to dilute the massive concentration of economic power?

CREATING A NEW BASE IN THE DOMESTIC ECONOMY

How can we diversify the economy away from minerals? It is common cause that domestic demand is too restricted and the productive base too small. Many similar economies, notably the Asian Tigers, had similar conditions and overcame them to become major industrial powers. South Korea curbed luxury imports and enforced domestic procurement, even insisting that foreign multinational corporations prove that components were not available locally before allowing imports. Furthermore, many of these countries, including China, moved from last-stage assembly production, with no research and development capacities, to fully self-reliant and self-sustaining industrialisation with the aid of massive infant industry protection.

Classical political economy argued that a country must build its own means of production capability in order to grow, e.g. factories that produce the basic elements of manufacturing.



Has the modern globally integrated and interdependent economic system removed this basic requirement? Can a strong financial and service sector become the basic engine for growing the economy?

Does the current infrastructure programme – which seems to reflect the needs of the soccer World Cup more than our intrinsic needs for modernisation – need to be changed to open the underdeveloped areas of our country and to promote further industrialisation?

The DTI document on industrial policy endorses this approach, but implementation is very slow.

QUESTION: Are the mechanisms used by the Asian Tigers to build their domestic economies applicable in South Africa?

MOBILISING POLITICAL ENERGY

Whenever public concerns rise about the performance of the economy, and labour in particular gets restless, there is either a presidential summit or Nedlac is used to articulate these concerns. The most recent example is the Presidential Economic Joint Working Group's document, "South Africa's response to the global crisis" (see *New Agenda* 34: 2009).

Militant resolutions are also passed at meetings of Cosatu and the SACP. ANC conference resolutions are more muted, but often also pose fundamental questions about economic policy. Yet change is slow and hesitant. The fundamental faults in the economy are not challenged, and neither are the huge inequalities of wealth and power in our society, which are clearly spelled out in documents like the ANC's *Strategy and Tactics*.

Nor are we making strenuous efforts to ensure popular participation in government. Instead, we get popular protest action in many areas. What is wrong?

There is consensus on the need for a developmental state. On the analysis above, we are very far from that goal. Can we create new energy for a transformation agenda setting out stages for critical change?

QUESTION: Has Polokwane released new political energy to deal with economic transformation?

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