

A time for self-examination

and change

By **Ben Turok**

The author, editor of *New Agenda* and an ANC member of parliament, spoke to the South African Democratic Teachers Union (SADTU) National General Council in Johannesburg on 10 September 2009

I have been asked to address four questions: the causes of the economic recession, how governments have responded, possible future scenarios, and the broader political implications for South Africa. I hope I can relate these questions to the present situation in our country.

ECONOMIC TURMOIL

The global financial crisis has thrown many political leaders off balance. The very organisations entrusted with rating economies globally, such as Standard and Poor's, were themselves found to be suspect. Even worse, the major institution charged with overseeing the world's economies – the International Monetary Fund (IMF) – failed to predict the crisis, and had neglected the important duty of monitoring the financial performance of the United States and other advanced economies. Furthermore, the financial crisis rapidly became a crisis of the real economy. As banks failed, factories shed large numbers of employees, and many individuals face extreme hardship in the heart of the advanced economies.

For all these reasons, policy makers, political leaders, and even the most prestigious economists have joined in a chorus questioning the foundations of economic theory and economic practice, including the role of certain state institutions and government policies. French Prime Minister François Fillon remarked that the crisis “has modified Europe’s ideological landscape” (*Financial Times*, 7 September 2009).

Fillon noted that even the British government, once a firm proponent of liberal free-market economic policies, has accepted that simply opening up markets is not sufficient, and that more state intervention and investment is needed. Fiscal stimulus and counter-cyclical measures, which were formerly very unpopular, have stemmed the decline in the US and Europe and the collapse has levelled off. Other policy reversals include increased public sector spending, fiscal stimulus, partial nationalisation, creating demand through social payments and attention to good governance in the financial sector.

The London *Financial Times*, the most conservative European newspaper, ran a series on “The Future of Capitalism”, which raised the most fundamental questions about macro-economic policy. An editorial headlined “America’s fate is not in its hands” argued that “without increased final demand from other parts of the world... there will not be sustainable growth”. The reference is to countries with surplus trading accounts, notably China and India. Never before has it been suggested that the all-powerful US could depend on the South for its revival.

The policy measures taken by the North remain forbidden to those countries in the South under the influence of the IMF, who are still urged to practise “prudence and caution”. More, these countries remain under the whip of the totally discredited rating agencies. Any lowering of their rating still leads to a much higher cost for foreign borrowing as well as capital flight due to lost investor confidence.

CAUSES OF THE RECESSION

The economic recession began as a financial crisis. US banks had extended credit to people who could not afford it. The banks hit difficulties when these people defaulted on their mortgage payments and the assets lost value. This was called the “subprime crisis”. Even more importantly, the banks then put themselves at risk by investing in mortgage-backed securities and speculative hedge funds. These are actually a

