

SOUTH AFRICA'S LOPSIDED ECONOMY

By Ben Turok

The author is an economist, former ANC member of parliament and the editor of New Agenda



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State capture may have dominated the headlines this past year but the legacy of an unequal society with an incoherent economic policy and a toxic brand of patronage are far more serious problems that plague our country.

“The share of South Africa’s wealth owned by the top 1% of earners has doubled since the late 1970s” (World Wealth and Income Database created by Thomas Piketty and Emmanuel Saez)

South Africa is a country of so many contrasts that it is perfectly possible to create a convincing portrait of success and prosperity since the transition.

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Unfortunately it is equally possible to create a negative portrait of a country in trouble. This paper leans in the latter direction since it is necessary to try to explain the deep sense of despondency that seems to have overtaken so many of our people. This is not to dismiss some of the material improvements achieved such as in housing, water, electricity provision for the poor, which have been provided for those sections of the population previously denied, but we do need to focus on understanding our present crisis of political turmoil, economic stagnation and social unrest.

The 101 stalwarts grouping has focused on ensuring a cleansing of the prominent ANC structures to overcome

the failings within the organization which have become intolerable. This process must go beyond moral exhortations and should deal specifically with what has gone wrong and how it can be corrected.

Furthermore, it cannot be confined to governance issues since there are fundamental problems in South Africa’s political economy deserving attention. Not only is our economy highly unequal, but it is structurally distorted with strong and successful sectors side by side with deeply underdeveloped and developed sectors. This demands urgent attention.

It is often argued that a major factor in the continuing distortions in our system is the inadequate performance of the state, including the limited power of the state. The discussion about state capture has necessarily been focused on specific business interests. However, there is a need to broaden the scope to include the role of capital generally. (see Zalk 2016 in New Agenda no 64)

State capture is not simply about enrichment of corrupt individuals, it is also about polluting state institutions such as SABC, SARS, Eskom, and other state owned enterprises and agencies which inhibit the proper functioning of the economy by virtue of their size and importance. These malpractices have impacted on the performance of the economy as a whole and government is now seen as being indecisive

and ineffective. What is more, the distortions and injustices of the past are able to continue to plague the country unhindered, including gross enrichment of the few and devastating impoverishment of the majority.

This condition has been highlighted by The Rich List Survey published in the Sunday Times (Dec 11 2016) which showed that the top 10 own business interests worth R240 billion (R240,000,000,000) in 2016 (excluding fixed assets such as houses, farms, cars etc).

- The top 10 earners got R292 million (R292,000,000) in salaries plus R 339 million in bonuses in 2015 making a total of R631 m.
- The next 10 earners got R453 million showing that the pyramid is not that steep. This group all got over R40 m a year. (Sunday Times 11 Dec 2016)

Yet 1 million people live below the food poverty line of R445 a month. The unemployment rate is 35% (if we include those who have stopped looking for work). It reached its highest level since 2004 in September 2015 due to 500 000 matriculants and university graduates joining the labour force as well as job losses in mining, manufacturing and private household industries. (Wittles, Mail and Guradian 6 Jan 2016).

Among the poorest households only 1 in 5 have a job. Of those who are employed 47 % (6.2 Million) earn less than R3,500 a month.

These stark inequalities represent the continuing legacy of the old order and are exacerbated by a lopsided and poor performing economy. Nowadays this poor performance is attributed to the global downturn which is undoubtedly a factor, but what is concerning is that we are performing worse than other countries in the same category which indicates more intrinsic problems. South Africa's poverty rates are high compared with other countries at the same level of development.

Growth is stagnant and is lower than population growth which means that nationally we are getting poorer every year. Moreover, since the transition, the rich, especially the super-rich, have largely captured the benefits of whatever growth that has been achieved.

Our national debt is rising fast and debt repayment costs are high. Our imports cost more than export revenues so we depend on inflows of foreign capital to pay for imports.

Investment, both public and private, is insufficient for employment generation and is often directed to non-productive and non-developmental activities.

For ordinary people fees for state services have risen faster than private prices for most of the past 20 years- electricity rose 140% education 90% and water 30% above the consumer price index. (Neva Makgetla, Business Day 6 Dec 2016)

We are generally able to claim credit for building houses, providing water and electricity, etc. for the black poor and are justified to do so. But it is remarkably easy to find negative factors which have undermined the creation of a developmental state inclusive of all our people.

Clearly the ANC government has fallen short in addressing these fundamental economic problems. There seems to be no short term solutions on the way as the prospects set out by the Minister of Finance for the next period is a significant reduction in government spending which will affect all departments.

IS THE APARTHEID LEGACY TO BLAME?

The most frequent explanation for poor economic performance offered by the ANC and the government is that we are still trying to overcome the distortions of apartheid or that we are still constrained by the compromises



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struck in 1994. Looking back to the transition period it must be accepted that the deal with De Klerk was probably the best we could get, although some argue that these distortions were dealt with inappropriately.

But what followed post apartheid has to be seriously questioned. Neva Makgetla has described this succinctly: "the democratic state accepted the unaccountable, hierarchical and arbitrary power system entrenched under apartheid." (Business Day 25 Nov 2016). Perhaps this was because the ANC was not actually prepared to take over government, and did not have the capabilities to run such a complex machine. Furthermore the compromises imposed by the government of national unity included a continuing role of apartheid public servants in the Reserve Bank, Treasury and other branches of government.

- We acknowledge that the apartheid economy was built behind protectionist walls. But did we have to move so speedily to integrate into a competitive world economy?
- Did we have to reduce import tariffs faster than any other country in the world thereby allowing imports to undermine manufacturing before it could adjust to new challenges?
- Did we have to abandon the RDP, the route to development?
- Did we have to adopt GEAR, a self-imposed structural adjustment program with its severe financial measures? >>

- Did we have to close down nursing and teacher training colleges, and run down technical colleges?
- Did we have to introduce welfarism as the key measure to alleviate poverty?
- Was there no way we could create jobs to increase demand in the economy as we were advised by many international and local economists?
- Was there really nothing we could do to undercut the system of super-exploitation of workers?
- Could we not adopt a more progressive land reform policy which did not entrench the powers of traditional leaders?
- Some of the choices made during the transition and early years of rule were contrary to the basic policies set out in the Freedom Charter and the resolutions of the 1969 Morogoro Conference. Both these documents asserted that seizing political power without economic power did not amount to liberation. Real redistribution had to take place.

THE LOPSIDED ECONOMY

Our present condition is marked by several serious contradictory factors.

1. It is argued that we have a small tax base. But the rich list shows that the rich are creaming off massive wealth.
2. State employment is crucial for a developing economy. Yet is our public service of perhaps 2 million in all spheres of government the correct size? Is merit the primary criterion in appointments? Can we not do more to improve their performance and planning capabilities? Salaries and bonuses are generous with even councillors being paid for informal duties which were previously done voluntarily as a public service.
3. The state is a necessary enabler of development. Yet state corruption

is widespread and sometimes associated with state capture of critical state owned enterprises and agencies.

4. Redistribution is needed, yet the focus of much redistributive effort has been on BEE. Deals made on the basis of BEE often involve the creation of parasitic “suitcase business people” the so-called “tenderpreneurs”. Many are not involved in the productive economy with some doing import/export business which undermines local manufacturing. Moreover, the black middle class remains a small proportion of the total black population.

In short we have allowed the emergence of a system which includes corrupt crony networks syphoning off surpluses generated by the productive economy. Compounding this is the massive amounts of profits that are transferred to offshore locations by companies with multinational ownership structures. This process has gone unchecked by virtue of paralysis in the ANC thereby also allowing a powerful enclave of monopoly to continue reaping super profits as shown in the Sunday Times survey quoted above.

The traditional view in Left literature is that the role of social democratic governments, as opposed to revolutionary governments, is to maintain the existing capitalist system by managing dissent among the masses. It does so partly by exercising the power of the state to control protests but also by introducing a range of reforms to alleviate poverty and provide safety valves for political pressure. In other words the state exercises a degree of “relative autonomy” to distance itself in language and style from monopoly capital while preserving the conditions for capital to survive in a system of social democracy.

How does the ANC government compare to the traditional view in left literature on the nature of a social-democratic state? Does the continued use of terms like the National Democratic Revolution and claims that the ANC remains a liberation movement, not a conventional political party, mean that the objectives remain the political and economic emancipation of the masses? If we do not have firm answers to these questions there is no hope of an economic transformation.

CORRECTIVE ACTIONS

It is generally agreed that the essential architecture of the economy has not changed since 1994. Ownership of the principal means of production, mines, large industry and farms has remained with the previous owning class. Nationalisation has not happened, for reasons that are well understood. Perhaps the most disappointing part of the story is that the state owned enterprises have become a serious drain on the states resources and a burden on the private sector due to high administered prices instead of acting as a mechanism to lubricate the economy. SOE's have become a burden on the private sector due to high administered prices such as rail costs, electricity prices etc.

This situation leaves the government with some tough choices. Real planning with time frames should be introduced setting out immediate measures, medium term and long term goals. It is essential that we rigorously identify the blockages in our economy and the waste of resources.

1. The enormous private wealth at the top of the tree by those who built their wealth under apartheid clearly provides scope for substantial tax increases, especially through capital gains tax.
2. This revenue must be used to boost the productive sectors of the economy, particularly

- manufacturing, including small enterprises. The state clearly has a major role, including state owned enterprises, but clear mechanisms have to be spelled out. This requires rigorous analysis of value chains so that only appropriate actions are taken. Suppliers of products to industry should be induced to source locally made goods, not imports.
3. A systematic review of CEO and top executive remuneration is needed. The present ratios are clearly a manifestation of obscene inequality.
 4. We need to reduce the legislative impediments and burdensome costs of doing business, especially for small firms
 5. We need to review policies on import tariffs and subsidies to provide better support for our producers while not ignoring the dangers of closing the economy.
 6. The performance of the public service needs great improvement. Increases in salaries in the public service and political institutions should be reduced.
 7. The ANC and all components of the democratic movement should introduce monitoring of corrupt practices and effective counter measures.
 8. We need a massive skills development programme at all levels, particularly in vocational training. Only 1.12% of the working age population are in possession of an N (N1 to N6) qualification indicating a desperate deficit of technical skills (Philippe Berger, forthcoming publication)
 9. The education system is clearly dysfunctional and not meeting the needs of the economy. The crisis in higher education needs to be resolved and the government should continue in its efforts to fund millions of students unfairly barred from university for lack of funds. Basic education needs

serious attention with much better provision of all facilities.

10. We need to revisit what we mean by bottom up development and peoples participation because it is not happening. Civil society needs to be mobilised to engage in grassroots activities and local development programmes.
11. There needs to be strong efforts to increase real economic linkages with regional partners in Africa. South Africa can play a vital part in the continent's economic transformation if the right attitude and political will is developed. A Southern and Eastern Africa economic community integrated into a single market with the free flow of goods and services, capital and skilled people would do much to benefit all countries in the region.



For ordinary people fees for state services have risen faster than private prices for most of the past 20 years

In the various documents and meetings of the 101 Stalwarts and the Umkhonto we Sizwe Council there was a universal appreciation of the serious condition of the movement and the economy. The renewal of each is dependent on the other. What is also evident from the experiences of the rest of Africa and indeed the whole world is that a country's performance depends as much on intangible factors as on concrete measures. Among the most important intangibles is a nation's morale, its sense that all is well. In South Africa there is instead

an overwhelming despondency across all sectors: labour, business, universities and civil society, which makes efforts at renewal difficult.

The "disinfection" of the ANC, to use Netshitenze's phrase, is an essential element of renewal. But we also need a larger view about our whole political economy. Perhaps it is a time for a "historic compromise" to borrow from the old Italian Communist Party, whereby all our social forces, particularly government, business and labour agree on immediate measures to pull our economy out of the quagmire. Only thus can we hope to begin to rectify our inherited lopsided economy. We understand that the distance between the government and big business is substantial, and that big business may not be willing to make substantial concessions which would eat into their generous returns. But the crisis in the country requires just that and more.

Finally, in the struggle years the movement correctly identified apartheid as colonialism of a special type. This was because the colonial oppressor was internal. In general, colonialism is characterized as a system that is based on political control by an alien power, naked coercion, discrimination by race or nationality and legitimated by cultural norms, and economic exploitation.

In South Africa, since 1994, political control has passed to the ANC, coercion in the form of pass laws and colour bars have been abolished, but racial discrimination and economic exploitation still have colonialist features. Indeed, race remains salient, though class relations become increasingly prominent. We seem to now need a more appropriate characterisation of our system with an appropriate analysis to follow.

Perhaps the following will serve as a good analytical starting point. "South Africa has a grossly unequal and unstable capitalist system with persisting colonial-type race relations under a democratic political superstructure." [NA](#)