Socio-economic transformation needs broad-based participation in the economy to benefit all

By Nimrod Zalk

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The author asks what lessons are to be learned from Professor Turok's long-standing criticism of orthodox economic policies that underpinned post-apartheid economic policy, with its limited investment in productive sectors such as manufacturing. This enabled the widening of already obscene levels of income and wealth inequality while a narrow-based black "national bourgeoisie" became increasingly integrated into the upper echelons of income earners.

My first encounter with Ben Turok's forthright manner was around a decade ago, as a nervous government official reporting to the parliamentary Portfolio Committee on Trade and Industry. He reached down under the table, pulled out some tinned goods, unceremoniously plonked them down on the table, and demanded to know why tinned tomatoes were being imported when they could be produced in South Africa.

It is only over the last few years that I had the opportunity to collaborate much more closely with Ben, via various workshops and brainstorming sessions that he convened, with the objective of seeking ideas that could contribute to the structural economic and social change necessary to transform South Africa into a thriving and more equitable country, and feeding these ideas into economic policy debates.

Ben had long been critical of the orthodox economic policies that underpinned post-apartheid economic policy from the early 1990s, including unduly restrictive monetary and fiscal policies, de-emphasis of the importance of public investment expenditure and big bang trade liberalisation. This was a matter of principle, not convenience, raised and held without regard to the prevailing political winds that favoured orthodoxy. He accordingly gave short shrift to self-proclaimed radicals and their newly "discovered" outrage at neoliberalism, manifested for instance by populist attacks on the Reserve Bank and associated rhetoric around nationalisation of its ownership. He recognised them for what they were – an attempt at misdirection by those threatened by the anti-corruption drive of the Ramaphosa administration.

He was deeply concerned about the methods and patterns of accumulation in post-apartheid South Africa, which resulted in limited investment in productive sectors such as manufacturing, while enabling the ››

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widening of already obscene levels of income and wealth inequality even as a narrow-based black “national bourgeoisie” has become increasingly integrated into the upper echelons of income earners. For Ben, socio-economic transformation should not be predominantly about a transfer of wealth from one elite to another but rather broad-based participation in the economy in a way that benefits all, most fundamentally through employment and prising open productive opportunities for economic participation.

He never abandoned the principle that the state and state-owned entities should be agents of the type of socio-economic transformation he envisaged. However, he was acutely aware that South Africa’s state-owned corporations were increasingly unfit for this purpose, certainly as long as they remained hijacked to serve the interests of the architects of state capture and while the institutional damage of this legacy persisted. His stance against corruption within parliament and against the grand state capture project that has hamstrung so many state-owned corporations was conducted at substantial personal cost, ranging from ostracism to death threats.

Over the last few years Ben became increasingly interested in understanding the workings of the financial sector, capital allocation processes in the South African economy and why they delivered such low levels of fixed investment. He recognised that a “national stalemate” prevailed between the corporate sector and the state and that moving forward required that “persisting conflicting interests have to be identified and mediated”.

He always retained a pan-Africanist perspective, reflecting in part the many years he spent in exile on the continent. He felt that industrialisation was fundamental as a catalyst for the development of the continent. South Africa had a leading, albeit not chauvinistic, role to play in supporting regional industrialisation.

While he held firm to his intellectual and moral positions, he always remained open to a multiplicity of perspectives and voices, including those he didn’t necessarily or fully agree with.

WHAT CAN WE TAKE FROM BEN’S VISION FOR SOUTH AFRICA, AND THE CONTINENT?

Ben found value in the proposition that a fundamental stylized fact about post-apartheid South Africa is that it has been a “high profit, low investment” economy. Post-apartheid corporate restructuring has involved the unbundling of the old multi-sector conglomerates and their reconsolidation in high levels of corporate concentration within more narrowly defined value chains. East Asian countries managed to harness the scale and scope of their large business groups by orienting them to become formidable global competitors in export markets. By contrast South Africa’s business groups, in concert with institutional investors, have focused on exerting their market power in the domestic market and southern African region.

Thus, as data compiled by both the International Monetary Fund (IMF) and the United Nations Conference on Trade and Development (UNCTAD) show, South Africa’s listed firms have persistently been amongst the most profitable amongst peer middle-income economies. Yet South Africa’s fixed investment rate (of which private investment is the largest component) has persistently been amongst the lowest and exports outside of mining and heavy industry have been lacklustre. There is a case to be made that this has resulted in a form of credit rationing in the South African economy, where the hurdle rate for investment projects in tradable sectors such as diversified manufacturing, is raised by the kinds of returns that can be earned directly in concentrated sectors or indirectly through investing in their shares and limited efforts are made to develop these projects.

High levels of contestation over evident rents in the economy are thus unsurprising. However, what is required is a shift from the prevailing battle lines over which elites benefit from harvesting economic rents in the economy, to an emphasis on facilitating a dramatic increase in the rate of productive investment in sectors that can directly and indirectly make rapid inroads into our chronic unemployment problem, while also advancing far greater racial inclusivity in the ownership and economic participation in productive sectors of the economy.

The failure to build a productive and inclusive economy has not only imposed unnecessary hardship on millions of South Africans. It has steadily eroded the public credibility of the governing party and the state on the

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one hand, and big business on the other. Thus, both face rising discontent, which if not reversed, could manifest as an outright crisis of legitimacy. Indeed the declining credibility of South Africa's political and economic leadership to deliver, opened the door to self-serving populist rhetoric that undergirded the state capture project and those whose primary objection to it was that they were not included.

Maximalist or absolutist positions are neither helpful nor indeed feasible, whether they are calls for a widespread deregulation of the labour market, large-scale redistribution of assets from one elite to another, or entirely unrealistic calls for "socialism now". This is because no major locus of either political or economic power can fully impose themselves on the other. They are however capable of, wittingly or unwittingly, imposing costs on each other, as they have done for at least the last decade, and by extension the country at large as long as a "national stalemate" persists.

Perversely, however, mutual reliance to narrow the social credibility gap gives rise to both the opportunity and imperative to identify and mediate the "persisting conflicting interests" Ben referred to, or risk a further deterioration in economic conditions, corporate profitability and social cohesion.

A significant part of the remedial action required is in repairing and re-orienting the state and state-owned corporations. Reindustrialisation is unimaginable in the absence of the reliable and cost-effective operation of electricity, rail and ports. In the words of sociologist Karl van Holdt, the "class formation" role of the state in securing the large-scale entry of black South Africans into the middle class that they have been historically denied, while necessary, cannot supersede its primary function and obligation to deliver services to its citizens and to support a massive deepening of productive investment in the economy. Re-engineering the state also requires recognising that while large parts have been severely compromised, not all government departments and state institutions have been impaired. This implies for instance, channelling industrial financing through relatively well functioning institutions such as the Industrial Development Corporation, the Development Bank of Southern Africa and the South African Revenue Service (with respect to the administration of tax incentives).

One sign of recognition that there is a mutual need for the corporate sector and the state to work together is the process initiated by the Public Private Growth Initiative to work with labour and government to craft Masterplans for major sectors that can ignite growth, employment, inclusion and exports. However, such initiatives run the risk of being unable to deliver at the scale required to address large-scale social needs and expectations if they are relegated to the realm of "microeconomic reforms" while not addressing economy-wide macro policies and institutions. And failure to meet legitimate expectations may ultimately further impair social confidence in economic and political institutions.

As a senior executive of one of South Africa's largest finance and insurance groups recently said to me: "the financial sector's social licence to operate in South Africa is close to zero". A reorientation of our macro-financial system is necessary to raise levels of fixed investment in productive sectors. And there are a far broader range of options available than, for instance, the relatively blunt instrument of the state re-invoking the system of prescribed assets.

The taxation system needs to reward reinvestment in industrial capabilities while disincentivising large-scale holdings of cash and other financial instruments. Company law and the corporate governance regime should be overhauled to shift from a short-term shareholder value maximisation orientation to one that champions long-term, patient and increasingly climate-friendly investment. Pension policy reform can embed the reality that long-term returns to pensioners will depend to a considerable degree on long-term productive investments, rather than maximisation of returns in the short-term. The social risks of failing to make such reforms and the long-term costs they impose on retirement investments need to be factored in. Such reforms should dovetail with seizing the opportunity afforded by the Mpati Commission's review of the Public investment Corporation to reorient the PIC as the leading institutional investor championing responsible, developmental, long-term investment that, in addition to its current practice of advocating increasing black participation in the upper echelons of corporate South Africa, also robustly embeds considerations of employment, localisation and greening the economy.

I would like to believe that this type of analysis and kind of ambitious yet feasible policy measures to place South Africa on a thriving and more inclusive trajectory would meet with Ben's approval. NA