

Radical economic transformation remains a pipedream

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Although the Minister of Finance gave a promising 2015 Budget Speech, having listened to the President, responding to the 2015 State of the Nation debates, it would seem that something is amiss in the government's understanding of radical economic transformation. It appears as though government talks of normal economic development as identical to radical economic transformation. In the government's description of radical economic transformation, actually, there is very little economic transformation, let alone 'radical' economic transformation.

Economic transformation is about structural changes in an economy in order to achieve sustainable economic growth and improve the standards of living of the people. In the pursuit of effective social and economic inclusion, inevitably, the structure of an economy needs to be changed. The structure of an economy entails: (1) the sectors and their contribution to economic growth, (2) use of machinery relative to labour and (3) the dominant sectors and their linkages. With regards to sectors and their contribution to economic growth, the focus is on the proportions of manufacturing sectors vis-à-vis mining and minerals versus services industries. In relation to capital and labour intensity, the discussion involves the extent to which machinery is used more than labour in the various sectors or the proportion of one input relative to the other. The third issue about the structure of an economy is about the major sectors, say mining and mineral sectors, and linkages to other big sectors, say energy sector. The other fundamental issue is ownership because ownership determines the structure of an economy.

First, if we look at the structure of the South African economy, although there are some industries which have slightly increased their contribution to economic activities, the economic structure has not changed much. In particular, the sub-sectors in the services sector have increased their contribution to the economy. For instance, the contribution of the Finance, Real Estate and Business Services sectors increased from 16% in 1994 to 21% in 2014. The contribution of the manufacturing sector however decreased from 21% in 1994 to 14% in 2014. Second, the South African economy remains predominantly capital intensive as many have argued, hence a very high unemployment rate. Third, as Ben Fine and

ZavRustomjee have argued “the Mineral Energy Complex (MEC) lies at the core of the South African economy not only by virtue of its weight in economic activity but also through its determining role throughout the rest of the economy” – the MEC can be described as a form of political compromise between large English mining interests and the large Afrikaner business and political establishment. Linked to the MEC is that whites remain in control of the South African economy, even twenty years since political independence in SA. And there is a historical link between white businesses domestically and international capital which ensures that the status quo is maintained; that the structure of the economy does not change for the purposes of radical economic transformation.

It is therefore not surprising that poverty remains very high in SA and racial inequality is stubborn. Contrary to what has become common knowledge, the income inequality in SA has a significant racial character than a class question. Isobel Frye and her co-researchers have observed that “poverty and inequality in South Africa have a very clear racial bias as a result of colonial and apartheid policies or racial discrimination and deliberate impoverishment”. Similarly, HaroonBhorat and his co-researchers have argued that “in the South African context, the strong inequality between racial groups as a result of apartheid has always been a significant driver of aggregate inequality”. In fact, they demonstrate that “it is very clear that African inequality remained virtually unchanged over the period, with the 1995 and 2005 Lorenz curves almost indistinguishable. In contrast, the Lorenz curves for white individuals graphically confirm increasing inequality within this cohort over the period.” The inequalities are even starker if asset inequality between racial groups is considered.

The data I have been studying suggests that there was an increase in intra-African inequality between 1995 and 2005. The performance of the labour market is a sound possible explanation for this: many Africans acquired well-paid jobs, given the shift from apartheid to democracy, and the labour market created many jobs which increased wage differentials in the African population group in particular. However, calculations show that between 2009 and 2011 the more significant increase in income inequality occurred within the white segment of the population. This, I argue, has to do with the structure of the economy which, in general, favours the white population group and could be favouring some white people more than others.

As I have been saying, in the various platforms and publications, the fundamental challenge that constrains South Africa's ability to expedite socio-economic inclusion relates to policy. In the main, the argument I have advanced is that South Africa has or pursues inappropriate policies in the context of redressing apartheid colonialism. The various political economy and development interventions since 1994 have been generic rather than specific to tackling the ramifications of apartheid colonialism. The focus should be on policies that directly affect those who endured the brunt of apartheid colonialism. It is, therefore, not surprising that it is in the area of economic hardship where the ramifications of apartheid colonialism are glaring, and that black people are most affected by poverty and other social ills.

To briefly illuminate, policies are considered inappropriate or weak if they do not take account of particular contexts. The global environment, the domestic context and other contexts have changed since 1994, but policy changes or shifts (i.e. reforms) and their sequencing have not been alive to new realities, especially since the mid-2000s. South Africa, arguably, has not confronted apartheid colonialism directly. Many have suggested that the overall development experience of post-apartheid South Africa has to be understood within the context of 'elite transition'. In simple terms, the transition from apartheid colonialism to democracy involved compromises among the elite, and the compromises reached could be constraining development. I am arguing that it might be that there is a new compromise: paradoxically, just as the political economy of South Africa was a compromise between global capital (which was represented by the Mineral Energy Complex) owned by the minority white and Afrikaner population during apartheid, the post-apartheid political economy, arguably, is also a compromise between the African majority rule and the white minority who holds greater power in finance capital.

In a nutshell, economic policy has to address the challenges of unemployment and poverty, as well as racial inequality. Social policy has to be robust. Labour market policies should be ameliorated. More importantly, social and economic policies have to work together for socio-economic development. An effective industrial policy and a sound regional integration agenda are also critical. And most importantly, tax and fiscal policies should be tilted to directly tinker with the structure of the economy. As argued elsewhere and by many others, South Africa needs a 'new'

consensus on the ideal framework or approach to its socio-economic development.

Needless to say, over and above policy and or policy reforms, implementation should be improved. If anything, South Africa should prioritise socio-economic challenges that relate to income inequality, job creation, poverty reduction and social cohesion. The rhetoric of radical economic transformation has to translate into concrete programmes that restructure the economy in a manner that deals with the ramifications of apartheid colonialism.