

# South Africa Plus ça Change

*The last twenty years have seen extraordinary changes for the better in this country. More and more people have access to water, electricity and other basic services. Labour rights have steadily advanced. We can marry whoever we want, regardless of race or gender. The black middle class has grown steadily. The old and the infirm are dramatically less likely to live and die in penury; as are the HIV-positive. And, not to leave out the big one, every South African has the right to vote, assemble and protest, regardless of race. In its gist, the State of the Nation address was correct: everything has changed.*

And yet it hasn't, really. Without in any way reducing the importance of the accomplishments just mentioned, there are respects in which South Africa has changed very little, if at all. In fact there are many such respects, but the one I want to focus on is that such growth as the country has seen has largely left the poor behind. That includes both the unemployed and the working poor. Labour's share of national income has decreased by 7% since 1994 while profit rates have risen by 250%. In the new South Africa, not only is work scarce; increasingly it doesn't pay. The black majority – and it is still overwhelmingly that – remains thoroughly downtrodden.

A South African who had fallen asleep in 1984 would feel perfectly at home upon waking today. Right down to news reports of the state machine-gunning workers.

## **The greatest trick the devil ever pulled was convincing the world that there was only one way to run an economy**

This is all despite the fact that South Africa has an exemplary record in economic management. “Exemplary” isn't my word – it's Dani Rodrik's, and those who are familiar with his work will know that he's no red. He praised “cautious fiscal and monetary policies which have kept inflation and public debt at low levels”, and an “economy was opened to international trade and capital flows”<sup>1</sup>. South Africa has checked all the economic boxes – and yet has nothing to show for it.

The first problem is that the policies don't do what they're supposed to: the economic orthodoxy has got it wrong. The sort of “don't tax 'em, don't spend too much, don't rock the boat, let the market do what it does” non-policy that we have long known and loved in this country does not have a proud track record. Even a cursory glance at economic history will reveal that the countries we are eager to emulate in our development did not get to where they are today by leaving the market to do its thing: in each case their governments carefully chose which industries were going to drive growth and then subsidised and tariffed the hell out of them. This applies equally (or more) to the United Kingdom and the United States – paragons of the free market – as it does to the *nouveau riche* countries of East – and South-East Asia.

Our current economic model is based, more or less, on pulling stuff out of the ground and getting it onto a ship as cheaply as possible. Generally what we do to keep our minerals cheap is to suppress wages: paying the people digging it up



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as little as possible. The hope is that firms with high profits will invest them back into South Africa, leading to higher growth and more jobs. We've got the first part of that right: the mining sector is profitable, but it doesn't invest back into the economy. Why should they be? We've made it easier than ever to send capital abroad, and much more profitable to invest in financial markets than in the messy business of beneficiation and manufacturing.

An economic model based on wage suppression (even one such as ours that fails to keep wages especially low) can never make South Africa less unequal. How could it, if its success depends on the enrichment of capital at the expense of labour?

## BMW's are for poor countries

A few weeks ago I was talking with a British friend about our respective houses, and she was shocked when I mentioned how much rent I was paying. Converted into pounds it's a very low number, even before our recent currency woes, for a nice semi-detached house in a middle-class area of Johannesburg. I'm paying significantly less than I paid for a quarter-share in a lousy student house in England, and less than for a sixth-share in a cheap apartment in Spain. And for this small amount of money, I have a house and a garden in a nice area, close to the shops and to public transport.

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Of course, it isn't really a small amount of money. I pay what to most South Africans is a fortune, and not a small one. In South Africa you don't have to be a member of the super-elite to enjoy their perks. We of the middle class get to earn first-world wages and pay third-world prices; we get to go to London or Paris or New York; and, if we're fortunate enough to have an education, our entry-level jobs let us rent nice houses in nice neighbourhoods. This is what it means

to live in an extremely unequal country: the surplus is diverted from the bottom to the top. South Africa's problem isn't the beggars at traffic lights. It's beggars being breezed past by BMWs.

In South Africa development, "getting to Denmark", is not just a matter of growth. It also isn't just a matter of more or better rural schools; better state hospitals; electricity in every home. These are all important things that no self-respecting state can fail to deliver. But they're not enough. They will improve the quality of life of many South Africans, people who are long overdue such an improvement, but they will not change the fact that South Africa is a country of rich people and poor people, each immensely so. These things will take the edge off poverty, but they will not defeat it.

In South Africa, development will require that the poor start taking a bigger slice of the surplus, and that means the rich taking less. It means that I, as an early-career knowledge worker, come to be able to afford only a small apartment in the inner city, and the family of four currently in that apartment come to afford my small house in a suburb. It means that the person now begging at the traffic light has a home and a job and a way to get from one to the other, and that the guy now blowing past him in a Beemer drives a sensible midrange sedan, or a hatchback, or even takes the bus. We shouldn't be aiming for a country where everyone has a big house with a garden and a pool – which is, as far as I can tell, what our economic

policy is trying to do – because we'll never get there, or anywhere close. What we should be aiming for is a country where almost no one has a mansion, because all the money that would have been spent on mansions is going towards giving everyone a modest apartment.

Some might call this a mercantilist view of economics: zero-sum, we can't all win. And maybe it is. But the dominant alternative, the view that it doesn't matter how rich the rich are as long as the poor are less poor, becomes less convincing every day. There is no sign of the wealth trickling down, nor has there ever been in any country that doesn't force it to.

## You have nothing to lose but your gilded cages

Of course, those of us who are “winning” in contemporary South Africa are doing nothing of the sort. I mean, in material terms we certainly are: look at all those BMWs. But we're paying more than just sticker price for our nice cars: we're paying by living smaller lives than we would otherwise.

What's the first thing that foreigners coming to Joburg comment on? It's the high walls around our houses, the barbed wire and electric fences on top, the burglar bars on our windows. Those who stay a little longer start to notice the private security vans that drive around the wealthier areas, the manned zozo on the corner, the rush to turn the alarm off when we get home. As our country has become more unequal, we on top have sponsored more and more violence – or the solemn promise thereof – to direct down the income ladder. It's increasingly difficult to feel safe in our own homes, knowing that in here, in the warmth, are all our pretty things, and out there in the cold are people with very few things indeed.

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It is nothing new for the rich to erect walls – physical, ideological, social – against the poor. But in South Africa we are learning that the more unequal our society gets, the more unjust it gets, the more we stretch our excuses for why the end of apartheid was not the end of misery, the more and bigger walls we need. And at this point there's no wall that would make us feel safe: having retreated to our gated suburbs, our patrolled streets, we still jump at every bump in the night. As our walls grow, our lives shrink. There are parts of Johannesburg that I don't like visiting, and by some measures that makes me intrepid: some people won't go south of Rosebank. And we've all known people who found that their lives had shrunk so much in South Africa that they went looking in search of bigger lives elsewhere. Now they live in countries with excellent public transport system, comprehensive healthcare, and safe streets. They might live in smaller houses and drive smaller cars, but at least they're happy to walk to the shops after dark.

There's no reason to believe that this part of South African life will change, unless we resolve to change it. We can paper over the cracks – for sure, the police could be more active, the justice system more efficient – but that won't touch the actual problem: that we have not only appropriated the surplus but we rub it in the faces of the starving every day. We can keep building bigger walls between the princes and the paupers, or we can try to make a society where there are fewer of each, and a lot more people in the middle who can live next door to one another.

## What is to be done?

If the problem is that too much of the surplus is going to the wealthy, and not enough to the poor, then the solution is redirecting it. To do that, we need an economy that demands a lot of labour at decent pay. To an extent these are connected – if there are plenty of jobs, then employers have to compete to attract workers, and pay goes up. But there will only be plenty of jobs if we reorient the economy from the business of pulling bits of metal out the ground and sending them overseas (which mops up a lot of investment without needing a lot of workers) to the business of turning bits of metal into more expensive bits of metal – that is to say, manufacturing – which also needs investment but for a variety of reasons needs a lot more workers.

The market alone isn't going to make this reorientation happen: among other reasons, it's going to be a long time before manufacturing is as profitable as mining, so it's not going to attract the investment it needs. That's where government can help: with judicious subsidies, infant industry protections, and investment in research – in other words, a real industrial policy – it could get South African manufacturing to the point where it's not only employing plenty of people, it's also turning a profit.

That's a long, hard road. It'll require not only a change in our economic policy but in the way that government and business thinks: we've gotten so used to trusting the market, it'll be difficult to get the right people to accept that the market needs a leg up.

There's a short-cut, though. In the long run there'll be no substitution for what I've just described, but for now – *right* now – we need a solution to the problem at hand. Happily the government already has the two basic institutions necessary to reduce inequality: SARS, to take money from rich people, and the Department of Social Development, to give money to poor people. Your and my taxes should go up, probably way up, and that money should be delivered through the grant system to every poor person, without exception.

We can figure out the details: universal grants? Negative income tax? Whatever form it takes, radical, unconditional redistribution is the simplest, cleanest, quickest way to reduce inequality in South Africa while we work on straightening the economy out. Affordability isn't a problem: we'll only pay out as much as we tax. Fairness is not a question: the good ship HMS Fairness embarked from this country a very long time ago. And as for discouraging people from looking for jobs? Let's worry about that when there are jobs for them to look for. I'm not holding my breath.

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### NOTES

- 1 Dani Rodrik, 2008. "Understanding South Africa's economic puzzles ." *The Economics of Transition*, The European Bank for Reconstruction and Development, vol. 16(4), pages 769-797, October.