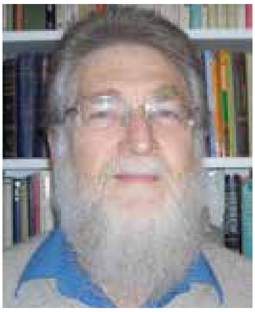
Two Decades On: In Search of Growth



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South Africa in 2014 is indisputably a much better place to live in virtually every respect than it was in 1994. The dreadful threat of racial conflagration that haunted the country throughout the second half of the 20th century has long since disappeared. So also have the policies and institutions that dehumanised and humiliated the majority of South Africans while depriving them of basic rights, opportunities and freedoms. Millions of houses have been built; millions more connected for the first time to electricity and water supplies and to sanitation. More generally, while crime levels remain a source of concern to many people, there is largely unfettered freedom of speech and association, and an open and competitive political environment, all backed by constitutional government and respect for the rule of law. As president Jacob Zuma put it in his 2014 State of the Nation address, South Africa indeed has "a good story to tell".[1]

And yet, and yet… there is abroad in the country a pervasive sense of underperformance, of missed opportunities; the sense that, two decades after the formal abolition of apartheid, the improvements in levels of prosperity and in access to, and quality of, public services could – and should – have been so much greater and, especially, so much more widely distributed. This sense has been overlaid with widespread perceptions of greed and venality in both the public and private sectors.

Nowhere is this sense of disappointment, underachievement and self-interested behaviour more apparent than in South Africa's chronically poor economic performance, especially at the macro level. The key indices include the following:

- Despite the country's evident potential as an 'emerging market', with legitimate aspirations to rapid industrialisation and significant and broad-based increases in living standards, the maximum sustainable growth rate has failed to rise decisively above its historically constrained level of around 3.5% – itself arguably less than half the minimum level needed to even begin to realise these aspirations.
- The gross annual rate of fixed capital investment – upon which growth ultimately depends – has not only failed to reach the requisite level of around 30% of GDP, but has not yet risen convincingly above the level of around 15-16% needed to compensate for capital depreciation alone.
- Job creation, especially in the private sector, has failed to keep pace with the growth in the labour force. Consequently, unemployment has continued to spiral upwards, with nearly two-fifths of the labour force – and more than half of the

'youth' labour force – now having little prospect of securing gainful employment for the foreseeable future.

- It took more than 10 years for income per capita to regain its previous (1980) peak levels, and subsequent increases in average living standards have remained modest.
- Not only have both income levels and the stock of wealth grown too slowly, but their distributions have become increasingly distorted and unequal.
- The rand has been subject to a succession of post-apartheid currency 'collapses', which have seen the rate against the dollar decline – in a step-change, yet highly volatile pattern – from around 3.0 rand to around 11.0 per dollar over the 20-year period, but without any measurable improvement in the country's competitiveness.

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- Despite the slow growth and investment rates (which have meant lower import bills), the current account on the balance of payments has remained in chronic deficit. Most fundamentally, this reflects the unwillingness (or inability) of South Africans to save, whether at the level of the household, the business enterprise or the state. Indeed, the post-apartheid ratio of gross savings to GDP has struggled to rise above 15%. The deficit also reflects regularly poor annual export performances. Consequently, the country has relied very heavily on foreign savings – in the form of capital inflows – to fund its current account deficit. Such dependence in a developing economy would not be so problematical were the capital inflows comprised mainly of foreign direct investments; in South Africa's case, however, they consist predominantly of highly volatile – and hence very unreliable – portfolio capital flows, leaving the country with a seriously exposed underbelly.

This litany of serious shortcomings is not intended to belittle the enormity or scale of the developmental backlogs and challenges that faced the country – and its new and inexperienced government – in the mid-1990s. Nor should it be overlooked that South Africa has not been alone among emerging-market economies in facing challenging global conditions, especially over the past decade. But the list does raise large questions about the causes of and reasons for such abject failures, and the impending 20th anniversary of the advent of democracy affords a timely opportunity for an honest and frank exploration of these questions.

The ultimate explanation for this hitherto unpromising post-apartheid economic history is plainly evident. It is that most of the structural impediments to growth – most of which have been manifest for many decades and, in some cases, for the best part of a century – have not yet been effectively addressed and resolved. Several of these impediments, which emanated largely from the singularities of the country's historic gold mining-led growth path, were aggravated – sometimes severely – in the post-World War II period by the policies and institutions of the apartheid era.

Some were further reinforced from the 1970s onwards by external policies and events which impacted South Africa in contradictory ways:

- On the one hand, the rising tide of globalisation induced attempts to modify domestic policies in ways that would protect and enhance the country's global competitiveness.[2]

- On the other hand, another rising tide – this time of anti-apartheid international economic sanctions – relentlessly pushed policy defensively in inward-looking and competitiveness-reducing directions.[3]

Yet the need for fundamental structural economic reforms has not been unappreciated by South Africa's key post-apartheid economic policy-makers. This recognition is reflected in the succession of 'new' economic policy initiatives that have been adopted, starting with the 1994 RDP (Reconstruction and Development Programme, followed rapidly by the GEAR (Growth, Employment And Redistribution) programme of 1996, and proceeding through the 2006 ASGISA (Accelerated and Shared Growth Initiative for South Africa) and the 2009-10 NGP (New Growth Path) to the more recent 2011-12 NDP (National Development Plan). Each of these initiatives has called for, indeed promised, at least a doubling of the sustainable annual growth rate, accompanied by 'millions' of new 'decent' job opportunities, major poverty-reduction impacts, infrastructural and export development programmes, and labour-market 'reforms', not to mention more effective anti-corruption measures. Yet none of these objectives – especially those surrounding growth, investment and job-creation rates – has proved even remotely realistic, not least because the structural and policy changes needed to promote them have never been forthcoming.

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On the credit side, it should be noted that the growth record did improve – modestly – during Thabo Mbeki's presidency in the mid-2000s. However, this was the result more of untypically benign global conditions than of domestic policy initiatives. These conditions included two main components:

- greatly increased liquidity and near-zero rates of interest in the developed world, in the aftermath of the September 11, 2001 terror attacks (thereby prompting holders of immense portfolio capital funds to seek higher yields – albeit also at higher risk – in emerging markets, including South Africa); and
- the China-led boom in global commodity demand and prices.

Not for the first time in South Africa's economic history, these windfall gains meant that, instead of being subject to sustained pressure to alleviate the fundamental constraints on growth, the country's economic policy-makers were let off the hook of implementing often politically challenging structural reforms. Understandable though this line-of-least-resistance approach was, it has merely further postponed the days of reckoning.

If the absence of real structural reforms indisputably provides the ultimate explanation for South Africa's dismal post-apartheid economic record, the proximate causes appear – at least on the surface – to be more arguable. Consider, for example, the closely interrelated – and core – issues of low growth, low investment, continuing private-sector job destruction, and inexorably rising unemployment.

Throughout the past two decades, 'informed' opinion on these matters has been split largely between two ideological camps:

- those who blame South Africa's disappointing post-liberation growth record on the so-called 'neo-liberal project', as exemplified (in their view) by the GEAR programme; and

- those who attribute it to the perceived and increasingly heavy hand of state interventionism.

To say the least, the intellectual stalemate resulting from this ideological schism has proved unhelpful to the policy community, both in and outside of government, in dealing with these core growth-related economic questions. Indeed, while references to the need to secure meaningful boosts to the sustainable growth rate remain obligatory, they have begun to appear increasingly rhetorical, lacking evidence of real conviction that the objective is achievable. In the process, the imperative need for more rapid – and more inclusive – economic growth is being downplayed in favour of a growing concern with distributional issues, and especially with the rising levels of economic and social inequalities in the country.

It needs to be acknowledged that South Africa is again not alone among developing countries in exhibiting this trend. Indeed, there is a substantial body of opinion in global development policy circles that distributional issues now constitute the most important development policy challenge.[4] To this extent, it is unsurprising that such issues have also acquired increased policy salience in South Africa. Here, however, there has been an almost exclusive focus on two policy arms:

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- aggressive promotion of socio-economic ‘transformation’, especially via the black economic empowerment (BEE) programme; and
- defensive extension of the reach of the social welfare monetary grants programme.

Yet, it is surely common cause that, after more than 10 years of increasingly prescriptive legislative enforcement, BEE – which, according to its proponents, was the *sine qua non of faster and more sustainable growth – has failed dismally, not only as a source of growth, but also by exacerbating, rather than ameliorating, the growing inequalities in the distribution of income and wealth.*[5] Recent amendments to the legislation, which not only effectively raise the bar for enterprises seeking to achieve improved ‘empowerment status’, but also threaten to criminalise non-compliant behaviour, are hardly likely to be more growth-promoting.

At the same time, it must surely also be common cause that, without growth, the alternative – ever-widening social welfare payments funded by the ‘better off’ – is also not sustainable in the longer term. In short, the fact is that, without growth, (re) distribution ultimately becomes a zero-sum game.

None of this should be taken as an argument against the deployment of welfare grants, whether universal or targeted, in an attempt to relieve poverty. On the contrary, as Charles Meth has argued powerfully, the case for greater redistribution through the fiscus in South Africa is politically and morally unanswerable.[6] But so also is the case for growth. However, an increase in the sustainable growth rate will never be achieved by continuing to shy away from removing, or at least reducing, the factors that have inhibited growth.

The necessary reforms include – but are certainly not limited to – resolution of the potentially crippling current account deficit, alleviation of the skills constraint, reconsideration of the nature and extent of labour-market regulation, currency stabilisation and the loosening of the constraints on the all-important small-business sector. More generally, the low level of investor commitment to post-apartheid South Africa demands reconsideration of the general business and policy climates and the way these are perceived in the markets. Government also needs a business champion – a senior minister who, instead of perpetually lecturing and upbraiding the business community, will fight his corner in cabinet. Unless and until policy moves beyond mere rhetoric, and these potentially painful challenges are confronted, sustainably higher – and significantly more inclusive – growth will remain a chimaera.

NOTES

1 In a front-page article in the London Financial Times on 14 March 2014, Julius Malema, who recently launched his Economic Freedom Fighters (EFF) party, and who presumes to speak for South Africa's 'dispossessed', reportedly claimed that "we are worse [off] than the way we were during apartheid". His sophistic and captious argument is that, because the water supplies to which so many people have now been connected are often (sic) not clean, and their electricity connections do not guarantee power supplies, "(s)o you are actually in more pain because these things are closer to you and, close as they are, you cannot use them".

2 See, for example, the reports of the Reynders, Riekert and Wiehahn Commissions, respectively Commission of Inquiry into the Export Trade of the Republic of South Africa, Report R.P. 69-1972; Commission of Inquiry into Legislation Affecting the Utilization of Manpower, Report R.P. 32-1979, and Commission of Inquiry into Labour Legislation, Report R.P. 47-1979.

3 For a succinct summary of the adverse consequences for the domestic economy of rising international economic and political pressures in the 1970s and 1980s, see Charles H Feinstein, An Economic History of South Africa, Cambridge University Press (2005), esp Ch 9. These adverse structural changes were not automatically reversed when sanctions were lifted – a fact largely overlooked by post-apartheid commentators and policy-makers alike.

4 This trend is not limited to developing countries. Economic and social inequalities are increasingly now also at the forefront of policy debates in much of the developed world. However, richer countries have the relative luxury of enjoying substantially higher average living standards, and can therefore better 'afford' redistributional policies.

5 The prologue to the 2001 report of the BEE Commission included the assertion that its proposed black empowerment strategy "will launch South Africa on to a course of sustained and even spectacular rates of economic growth". See Black Economic Empowerment Commission, Skotaville Press, Johannesburg 2001.

6 See, for example, Charles Meth, Basic Income Grant: There Is No Alternative! (Big: Tina!), Working Paper No 54, School of Development Studies, University of KwaZulu-Natal, 2008