

Palatable Politics – Notes for Discussion on South Africa’s economic policy debate with Kenneth Creamer, June 2024

Questions

1. What are your reflections of economic transformation and development from 1994 to now, why hasn’t economic power followed political power?
2. What needs to be done to tackle unemployment, inequality, and poverty?
3. Can you explain some of the key economic linkages we always hear about in the news - the link between currency strength, inflation, interest rate and cost of living, and how this impacts on ordinary people?
4. Now that the ANC has only secured about 40% of the vote what impact are different governance arrangements likely to have on South Africa’s economy?

1. What are your reflections of economic transformation and development from 1994 to now, why hasn’t economic power followed political power?

In 1994 South Africa inherited an economy scarred by the structural features of colonialism and apartheid – a highly unequal society in terms of income, wealth, and opportunity along fractures of race, class, and gender.

I don’t think that SA’s political settlement or constitution is the cause of ongoing inequality, the real failure has been a lack of boldness in transforming the structure of the economy and a tragic weakening and repurposing of the state towards personal enrichment of those with proximity to political power. So instead of leading a programme of social and economic transformation the state became repurposed for corruption and personal enrichment.

This can be different – state failure can be overcome. If resources are not stolen and are used effectively for improved service delivery, and for infrastructure maintenance and for the building of new infrastructure in apartheid’s under-served areas then inclusive growth and social and economic transformation can be achieved.

A capable state is required, for example:

- To accelerate processes of land reform in both rural and urban areas,
- To put in place policies that will overcome market failure and promote competition in overly concentrated sectors.
- To lead a process of a just energy transition and link this to a new industrialization path and related skills and job creation programmes.

The evidence from around the world is clear, for economic power to follow political power, a capable state is required to lead a sustained period of transformative economic growth. Without that capable state inherited patterns of racial, gender and class inequalities will persist and deepen into crisis.

2. What needs to be done to tackle unemployment, inequality, and poverty?

One fact that always stays with me was that the GDP per capita of Ghana was about the same as GDP per capita of South Korea in the early 1960's. Now the GDP per capita of South Korea is more than 10 times greater than the GDP per capita of Ghana. Similarly, under Deng Xiaoping's leadership and beyond hundreds of millions of Chinese people were lifted out of poverty from the 1980's until today.

We should not be disillusioned. It is possible to change South Africa for the better and tackle unemployment, inequality, and poverty. But this needs the correct economic policies. We need to commit to a process of inclusive economic growth, we need to lift investment levels so that we invest in our country's future.

We should not be misled by populist slogans that are economically destructive. When we hear a slogan calling for nationalization of the mines and banks, we should ask ourselves will this lead to economic growth and job creation? If the answer is 'no' then those populist slogans must be isolated and rejected.

It is true that we need to have massive redistribution of wealth, income, and opportunity in our country. The key question is how to do this. There is no short-cut. Effective and sustainable redistribution can only be achieved if policies are designed to combine growth and redistribution.

When the economy is growing, tax revenues rise and there is more money to invest in improved education and health systems. When land is restored or redistributed this need to be linked with programmes to lift production so that new landowners can be profitable farmers – producing for local communities or even for export.

Similarly, if there is simply growth without redistribution then that growth will not be sustainable as it will only benefit a few.

3. Can you explain some of the key economics linkages we always hear about in the news - the link between currency strength, inflation, interest rate and cost of living, and how this impact on ordinary people?

Economic policy effects everybody. For example, last year in the United Kingdom their prime minister and finance minister were forced to resign after only about 50 days in office. Why? Because they announced tax cuts mainly for the rich which mean that the UK's government debt was going to rise. Immediately, this meant that the British currency weakened, and inflation and interest rates rose. So, a wrong economic policy decision impacted on ordinary people as it increased the cost of living, as they had to pay more for food and other essential items, and they had to pay increased bond repayments on their houses.

It is the same in South Africa. It is important that government understand the linkages between its policies and the lives of ordinary people. For example, we must be very careful not to announce programmes that we are not able to fund, as this will push up government borrowing and will lead to rising debt repayments and rising interest rates.

This impact on ordinary people in many ways. For those who borrow money – interest rates will rise. For those who rely on government services and grants the funds available for these services and grants will be crowded out by the need for government to service its debt repayments. And if government ultimately cannot service its debt repayments there is a risk of a loss of government's authority to set economic policy.

On the other hand, if policies are put in place to lift economic growth and investment, then government finances will improve, and more resources will be available for services and grants and infrastructure investment.

4. Now that the ANC has only secured about 40% of the vote what impact are different governance arrangements likely to have on South Africa's economy?

This is a new scenario for SA to navigate. We need to try and align our politics and economics in a new way. The key question is how do we unite sufficient political support for the kind of economic policies that will lead to jobs, inclusive economic growth and the fairer distribution of income, wealth, and opportunity.

There will be forces pulling to the right – trying to protect white privilege and resisting change. And there will be forces pulling to the left – with populist slogans that are likely to be economically destructive and lead to increased levels of poverty and unemployment.

It is too early to say if South Africa will be able to chart a course where it can unite sufficient political support and set up a viable government which is able to build a capable state and which is able a sustained period of inclusive growth. The stakes are very high because already our economy is very unequal and performing poorly.

We need leadership that can put the interests of South Africans first – and lead a process of inclusive growth that sees investment in our country's future and takes our people out of poverty as has been achieved in a number of other countries.