What to do about the South African economy?

- By Adam Aboobaker

Some progressive economists argue that a bigger budget deficit is the solution to the country's socio-economic woes. But ADAM ABOOBAKER argues it isn't that straightforward. This article was originally published online on 25 June 2024 in Africa Is a Country, a site of opinion, analysis, and new writing on and from the African left, at https://africasacountry.com/2024/06/what-to-do-about-the-south-african-economy.

President Cyril Ramaphosa officiates at a Nissan South Africa Investment Ceremony *Source: Flickr*

It goes without saying that in terms of economic performance South Africa is in dire straits. As many commentators have identified, per capita incomes have stagnated or fallen for over a decade, manufacturing – a sector of historical significance to long-term growth worldwide – has also fared poorly, and the disastrous state of key labor market indicators is known to all. It's not only the state of the economy that leaves much to be desired; the state of economics commentary also needs to be strengthened through robust debate. Misgovernance and inappropriate policy choices have played a role in economic performance; there is and ought to be extensive conversation about this. For Duma Gqubule[1] and several other commentators, the public deficit has been much too low, and it is possible to forecast (to one decimal point) macroeconomic outcomes if the ANC's macro-policy choices were to persist after five or ten years of a possible coalition between the ANC and the center-right Democratic Alliance. A bigger deficit is seen to be a panacea.

Ignoring the difficulties of forecasting in general and particularly forecasting outcomes of yet-to-be-determined policies of a coalition government, the question of whether poor economic performance ought to be attributed to the size of the deficit is a serious question for academic and non-academic debate.

A simple (and transparent) exercise questions the claims about the need for larger public deficits. If the ratio of change in the capital stock corresponding to the change in output (the incremental capital-output ratio) is ~ 4, as a conservative estimate, to achieve an annual real GDP growth rate of 8% in line with late-industrializers the share of *net* investment in GDP will have to be approximately one-third. Gross capital formation in South Africa has not once risen above one-fifth of GDP in the last 15 years – a very large increase in the investment share is required to raise growth.

A long tradition in development economics (Lewis 1955) has questioned how this is compatible with growing public deficits: from accounting and keeping trade balanced, the private investment share, public consumption and investment to GDP ratio, and private consumption-GDP ratio must sum to one; macro-balance necessitates that it is only possible to raise the investment share if the public or private saving rate increases.

Recognition of this point is often mistaken as building the case for austerity or anti-poor interventions. That is not the case. If anything, it underscores that class antagonisms are at the core of any development process – capitalist or non-capitalist. The key to progressive development policy is finding the elite interests and forms of rentierism that can be tackled to promote national interests. In South Africa's situation, there is a strong case that national development ought to be promoted by penalizing obscene levels of elite consumption – luxury vehicles, mansions, second homes, etc., and channeling the resources into investment.

A tight fiscal policy, shrinking the budget deficit through tax hikes, particularly on South African elites (who enjoy extraordinary living standards by international comparison), is compatible with progressive priorities around distribution in multiple senses. Any program promoting a regime of excess demand raises the specter of "profit inflation" – the solution of macroeconomic disequilibrium through the (regressive) redistribution of income from labor to capital. Taking as fact that South Africa needs a higher investment share, and assuming the deficit increases in line with the hopes of some commentators, the remaining adjusting variable is the private saving rate which is increasing in income inequality; promoting a high public deficit would perversely expand inequality of market incomes in a fast-developing economy. The obsessive focus on expanded public deficits in some quarters is at best a distraction embodying a lack of imagination amid the country's multidimensional development and distributional challenges. At worst it obscures a regressive class program for economic development.

A corollary is that a tight fiscal policy can be progressively redistributive (in terms of both market and disposable incomes) and is compatible with, but will not cause, a high share of investment in GDP. What other progressive development policies ought to be considered then? A series of interventions might plausibly reduce inequalities and improve firm performance. Democratizing access to cities might fulfill such a purpose.

The high transport costs imposed by apartheid and pre-apartheid spatial planning plausibly impede industrial development in a manner analogous to the Corn Laws in 19th-century Britain (Engels 1842). Spatial segregation and the accompanying social service inequity either lowers the real consumption wage (the nominal wage indexed against consumer prices) or raises the real product wage (the nominal wage relative to the firm's output price.) The former harms workers and the latter harms firm investment; neither is good for social and economic development. In the short term, a public transport campaign against transport rentiers should be part of the policy discussion. In the longer term, it is hard to see how South Africa can progress without a larger redistribution of the elite infrastructure in schooling, health, and housing that reproduces the stagnant social and economic structure.

As another example, the state should be wary of permanently gutting its ability to price energy in a manner consistent with developmental priorities. Indeed, a key success of the democratic era is the significant expansion of electrification for the masses. A historical driver of industrial development in South Africa was undoubtedly access to energy on favorable terms. There seems to be little mainstream interest in defending such a role in an era where the overriding acceptance of its incapacity dominates the perception of the state after years of "state capture." That may be true in the here and now, but progressives must also adopt forward-looking perspectives that sustain the possibility of state-directed industrial development. The expansion and public control of energy provision on favorable terms could be important in this respect.

There has been much talk about the "social democratic" character of the ANC in the aftermath of its latest split. But programmatically it is unclear what is meant here beyond platitudes. The Nordic social democracies were centrally characterized by tight fiscal policy, "solidaristic wage bargaining," and efforts against decommodification of key services. The strategists behind Swedish social democracy, Rehn and Meidner, favored tight fiscal policy partly because they believed it helped, in the medium term, restrain the share of profits in income. In the long term, Rehn and Meidner believed the profit share should be constant so as not to jeopardize growth. More generally, they sought to prioritize a regime of low inflation, full employment, high growth, and most importantly low wage inequality. All are highly relevant ambitions for any progressive economic program in South Africa, even if they will take some time to realize. There are good reasons to believe that compressing the wage distribution as well as de-commodifying and democratizing access to healthcare, education, housing, and cities can function as industrial policies.

Does utilizing the corresponding tools or realizing these various objectives require a bigger fiscal deficit? It is not clear that it does and there are strong arguments for why it will not. Democratizing access to the finite resources of good teachers, medical professionals, and housing very likely means redistributing access to them, not merely increasing their rate of utilization. Moreover, the types of economic activity South Africa needs to promote (rapid public and private investment) require less of its national product to be consumed conspicuously by its elite. In other words, creative and robust progressive tax policy must remain firmly on the agenda. A narrow pursuit of fiscal deficits for its own sake misses the multidimensional nature of South Africa's inequality and how it can be reduced in line with a development strategy.

The proponents of deficit-financed attempts to address these structural inequalities would have you believe that free lunches abound, and democratizing the economy need not tackle entrenched interests. This is questionable economics – and regressive politics in a country where elites monopolize access to good schools, healthcare, and housing, and where a decentralized transport system allows for unnecessary expenditure at both ends of the distribution. Increasing aggregate demand for its own sake will not fix these issues.

The recent ructions in party politics make room for a rare opportunity to redraft formal and informal alliances beyond just party politics. A coalition of progressive groups embedded in civil society, the state, and particularly low-wage workers ought to find allies in manufacturing capital willing to collectively mount a meaningful social democratic challenge on South Africa's flagging development. It will not be easy – particularly because a crucial ingredient of wage solidarism requires more trade union unity than has recently been displayed. It also requires moving beyond a questionable fixation on increasing the public deficit, getting serious about squeezing superfluous and conspicuous elite consumption and decommodifying and redistributing assets necessary for entering employment less expensively.

REFERENCES

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ENDNOTES

[1] The reference is to a post on X reading: "ANC has learnt nothing from political calamity. It has a death wish. With doomsday ANC-DA coalition dressed up as GNU, GDP will grow by 1.2% a year for next 5 years. Number of unemployed people will increase by 2.2m to 14.3m. Unemployment rate will increase to 44.8% from 41.9% 41.9%
7:21 AM · Jun 12, 2024. 39.7K. Views https://x.com/DumaGqubule/status/1800760273353248879

Adam Aboobaker lectures development economics at the University of Manchester. He is affiliated to the World Inequality Lab at the Paris School of Economics and the Southern Centre for Inequality Studies at the University of the Witwatersrand.

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