Persistent and obscene inequality

A post-apartheid policy choice

- By Seeraj Mohamed

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This article expresses his own views and not those of his employer.

How is one to understand the poor economic performance of the South African economy since the end of apartheid? SEERAJ MOHAMED argues that the post-apartheid government chose to adopt neoliberal economic policies rather than taking on a developmental state role. These policies opened the way for the large dominant corporations to pursue high short-term returns through misallocating capital from productive sectors towards speculation and "lazy" rent-seeking activities. In the process they denuded, deindustrialised and financialised the economy. Still today, the South African government (supported by elites of large corporations) ignores the lessons of history and pursues damaging neoliberal economic policies that impose an unprecedented degree of suffering on the majority of South Africans.

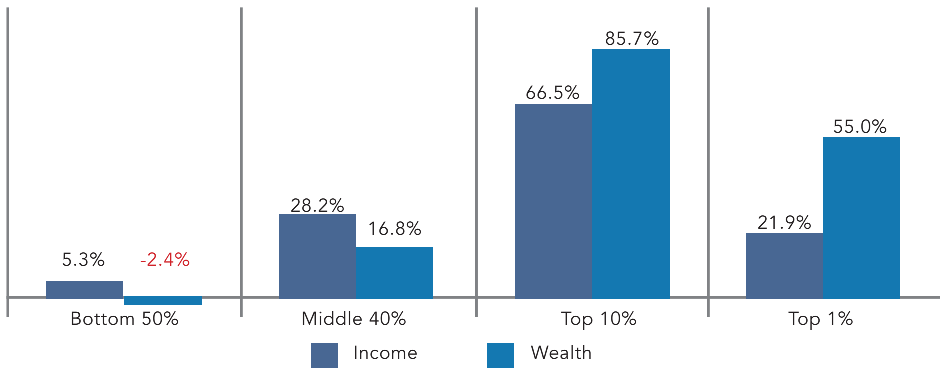
Introduction

The South African economy has performed very poorly since 1994, particularly with regard to the persistent extremely high levels of structural unemployment, poverty and inequality (UPI). But over the last 30 years, governments and the large corporations have made the choice for inequality. Moreover, the government and most elite policy thinktanks fail to appreciate just how extreme South Africa's inequality and unemployment is compared to almost anywhere else in the world. Such extreme inequalities undermine the social foundations of democracy. As the editors of the *SA Review 3* noted in 2013, amid a

> national tragedy of the inequality, poverty and unemployment [which had] triggered rising working-class discontent around the country, the ANC announced a 'second phase' of the 'national democratic revolution'. Ironically, the ANC post-Mangaung has resolved to preserve the core tenets of the minerals-energy-financial complex that defined racial capitalism – while at the same time ratcheting up the revolutionary rhetoric to keep the working class and marginalised onside. If the 'first phase' was a tragedy of the unmet expectations of the majority, is the 'second phase' likely to be a farce? (Southall *et al*., 2013)

Statistics South Africa's latest data on poverty in 2015 showed that 55% of the population lived below the official poverty line and that the Gini coefficient was 0.62. Racial and gender disparities remain extremely strong in South Africa. In the last quarter of 2023, unemployment among people classified African was 36.1% and for white people it was 8.5%. At the same time, unemployment for women was 34.4% and 30.1% for men. Figure 1 shows that the biggest portion of the population (half) have a negative position (they have more liabilities and debts than they do assets).

Figure 1: Income and wealth shares in South Africa, 2021

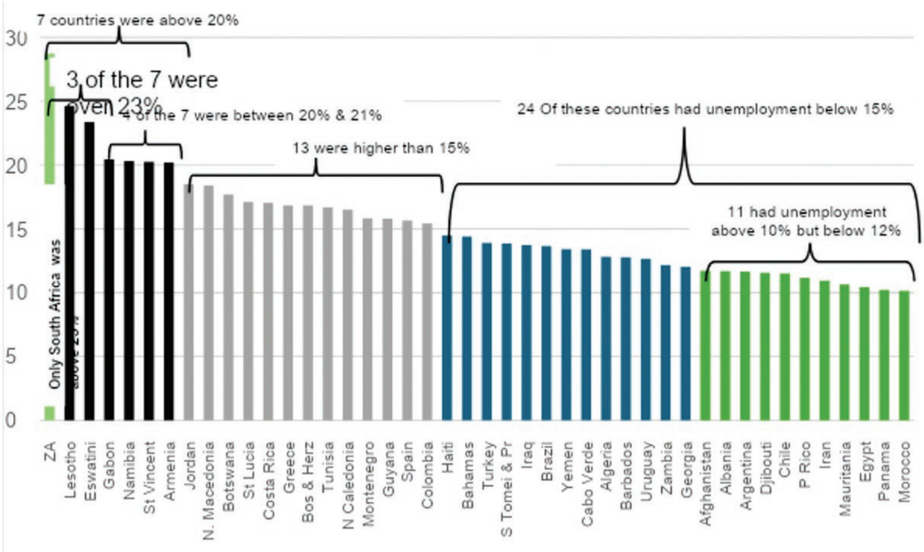


Source: Chancel *et al.* (2022)

We often hear that South Africa has the highest rates of inequality and unemployment in the world. Yet, what many South African policymakers do not comprehend is just how much of an outlier the country is compared to the other countries. In other words, they fail to understand the depth of the crisis which is considered abnormal anywhere else in the world. Therefore, their solutions do not work to solve the crisis. Instead, similar to the failure to act to alleviate the climate change crisis, policymakers seem willing to delay addressing the grave problem.

Gabriel Palma (2019, 23) classifies countries with a Palma ratio above four as having obscene inequality.[1] He calculated a Palma ratio for South Africa of over seven. There were only two other countries in the world with a Palma ratio above five in 2016 (Botswana at 5.9 and Namibia at 5.8).

Figure 2: Forty-four countries in the world with unemployment above 10% in 2020



Source: World Bank data source from Quantec

Figure 2 shows unemployment rates for the 44 countries that had unemployment above 10% in 2020. Twenty-four of the 44 countries had unemployment below 15% and 37 of the 44 had unemployment below 20%. Only South Africa had an unemployment rate over 25% (see extreme left of graph). The unemployment rate in South Africa in the first quarter of 2024 was around 32% (according to Stats SA, Quarterly Labour Force Survey). Unemployment and inequality are extremely damaging to societies, but South Africa's powerful institutions work together in perverse harmony to produce this obscene outcome. *The South African inequality machine works under the guise of democracy to make the wealthy even wealthier.* In 1993, the average per capita income for whites was ten times that of Africans, but by 2017 this had declined to six times (Shifa *et al.*, 2023).

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Even the International Monetary Fund (IMF) recognises the harmful effects of inequality. Their website's entry on inequality states, "While some inequality is inevitable in a market-based economic system as a result of differences in talent, effort, and luck, excessive inequality could erode social cohesion, lead to political polarization, and ultimately lower economic growth".[2] Palma's classification "obscene inequality" seems more apt for South Africa than the word "excessive".

Joseph Stiglitz, with reference to the US could well be speaking about post-apartheid South Africa when he says:

> Inequality is a choice, and by that I mean that it's not the inexorable result of economic forces, demand and supply, globalization. Some countries have shaped those forces and created a society with much lower levels of inequality than others. We've chosen, in effect, to create a society with this great divide between the rich and the poor, and increasingly over the last 30 years, a hollowing out of the middle.[3]

The choice that Stiglitz speaks about when governments and elites of large corporations choose inequality is of course neoliberalism. Stiglitz refers to rewriting of the rules, such as deregulating labour markets and weakening the power of workers, liberalisation of finance that has caused the financial sector to grow and to exploit the poor. He also refers to the government's *choice* not to effectively tax the rich. He harks back to the "Golden Age" for developed countries after World War Two and says that if the rules were rewritten to change neoliberal policies, then there could be more equality and faster economic growth again. In Stiglitz (2024), he discusses how neoliberal economic ideology of unfettered markets has led to financial and inequality crises where a few people have amassed huge wealth while the incomes of most people have declined.

Neoliberalism, underpinned by financialisation in South Africa

In Fine and Mohamed (2023:22-23), we define neoliberalism as follows: "the transformation of the role of the state in the provision of welfare, social security, industrial development, the (de)regulation of trade, labour and finance and the reorientation of both domestic macroeconomic policies and global financial architectures". Moreover, we argue that "countries' structural economic transformation, including industrial development, should be analysed in light of the shift to the financialised phase of capitalism and its neoliberal practices, interests and ideologies".

Palma (2022: 27), in a discussion of neoliberalism and financialisation since the 2008 Global Financial Crisis (GFC), defines financialisation as consisting of two aspects, one being the growth in size and dominance of the financial sector relative to the non-financial sector, and the other is the financialisation of non-financial corporations. Palma explains:

> The first relates to phenomenon such as the mounting power of the financial sector and its growing ability to capture policy, its ever-greater capacity to generate easy rents, and its increasing capacity to extract value generated by others. The second, meanwhile, relates to the switch of the composition of earnings in non-financial corporations from operating profits to financial rents, which – as Ricardo emphasised – is bound to have a negative impact on investment, technological absorption and productivity growth.

For Lazonick and O'Sullivan (2000:17) corporate governance in the US has shifted from "patient to impatient capital" where nonfinancial corporations, rather than "retain and reinvest" their profits in the capacity of labour and the capital stock of their subsidiaries, shift to an attitude of "downsize and distribute". Financialisation entails a focus of increasing returns to shareholders in the short-term. They are more likely to attempt to raise share prices through downsizing their workforce and buying back shares rather than to retain profits to reinvest in their workforce and subsidiary businesses. Crotty (2002) explains that companies are no longer treated as long-term businesses to nurture and grow but part of a portfolio of assets to be bought and sold to increase short-term returns for shareholders.

Palma (2022) makes the point that in developing and emerging economies (DEEs) the drive to financial liberalisation, the opening of capital accounts (for cross-border movement of capital) and financialisation was driven by domestic elites. He makes the point that in South Africa during the transition, similar to Chile after the 1973 coup, the opening of capital markets was sacrosanct for the elites even at the cost of lower economic growth. He explains that:

> In Latin America and South Africa (Africa's honorary Latin American country), for example, no one pushed more for the full opening of the capital accounts than their rentier domestic elites seeking to generate a whole new source of easy rents – including acquiring the property right for capital flights.… In fact, this was a key component of South Africa's political settlement ending apartheid, even though the white elite did not have this right before. And they surely used it after the start of democracy! (2022:28).

He correctly points out that much of the Mandela government's approach to economic policy, particularly macroeconomic policy, had to be aligned with the corporate elites' demands for open capital markets. The opening of capital markets (liberating capital) meant that South Africa was forced to increase interest rates to try to keep domestic capital in the country. Higher interest rates, which are fatal for small business development, were required to attract capital from abroad, including inflows to replace the capital of those that shifted their primary listings abroad and through illicit capital flight.

Figure 3: Net foreign capital flows as percentages of GDP

Source: Authors' calculations on South African Reserve Bank data

The bulk of these capital inflows were volatile, destabilising short-term capital flows (hot money) and not foreign direct investment (FDI) (see figure 3). In fact, some of the periods when net FDI flows were positive occurred because of post-democracy offshore listings by South African corporations, where their domestic assets were reclassified as foreign-owned assets, and during financial crises. The domestic and international financiers and rentiers interested in harvesting easy rents on short-term capital flows would require South Africa to commit to low inflation to ensure that the real return on their financial assets within the country did not lose value. Financial assets make up the bulk of the assets of the top 0.1% in South Africa (Chatterjee *et al.*, 2021). Government rhetoric in favour of a smaller state and limiting the ability of government spending through austerity-minded fiscal policy would round off this neoliberal package.

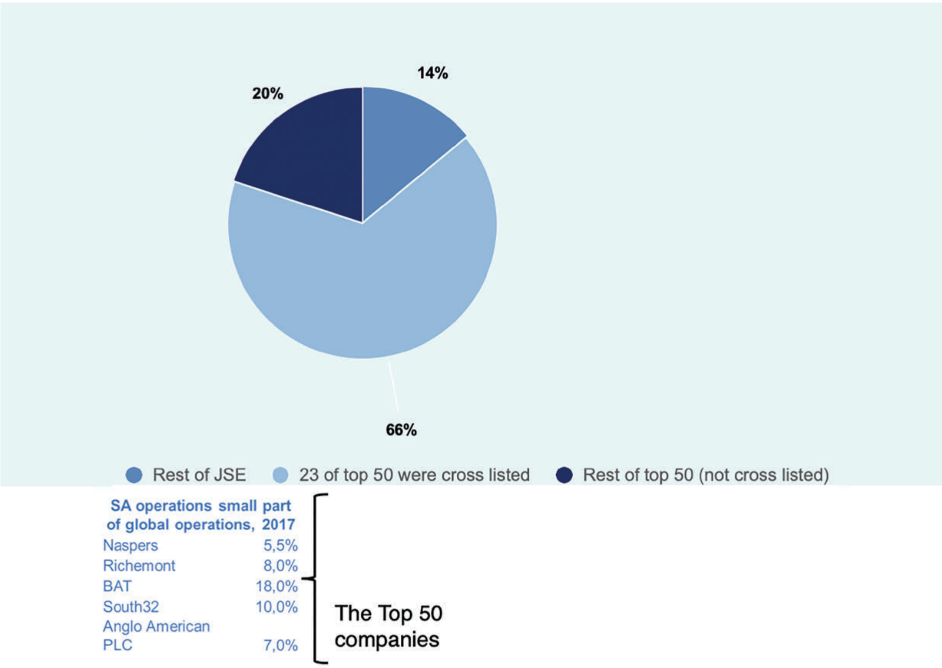
Unemployment and inequality are extremely damaging to societies, but South Africa's powerful institutions work together in perverse harmony to produce this obscene outcome.

This approach required that international finance become an arbiter over the definition of credible economic policy. It required Mandela's administration to show that the new government would be willing to stand up to 'populist' demands. This pressure from international finance at a time when legal and illicit flows had increased was possibly a motivation for the eradication of the Reconstruction and Development Plan office in the Presidency. The economic policy package adopted by the Government of National Unity (GNU) drew much on the (Derek) Keys Plan announced by the apartheid government in 1993, which was based on the government's neoclassical framework for growth, the Normative Economic Model. The overall economic package was eventually structured into the Growth, Employment and Redistribution Programme (GEAR), which was introduced in 1996 and announced by the government to be non-negotiable.

The choice of the new democratic South African government to embrace neoliberalism was influenced by the elites of the large corporations during the transition. In Khan and Mohamed (2023), we argue that these corporate elites had become partners, empowered to develop market-oriented policies within the structures of PW Botha's total strategy. Business people, such as Derek Keys, were drawn from the large corporations into ministerial and senior government posts. The heads of large corporations, notably Harry Oppenheimer, spent much time convincing Mandela and the economics leadership of the ANC to implement neoliberal economic policies. Key economic ministries of the GNU were headed by a mix of these people from large corporations and the Nationalist Party (Khan and Mohamed, 2023).

The post-apartheid government with the ANC as the majority party had an electoral and historical mandate to address the many legacies of apartheid and transform society. They adopted the Reconstruction and Development Programme and later the National Development Plan and engaged in electrification, building schools and clinics and improving access to basic services, and equalising social grants. However, the neoliberal policy choices of the government have meant that the weight of neoliberalism in the domestic economy has overwhelmed the generally inadequate and self-defeating efforts of the government to address the legacy of apartheid.

Figure 4: JSE Top 50 & share of cross listed companies in top 50 in 2017



Source: Authors presentation of data in Bosiu *et al* (2017)

Neoliberal macroeconomic policies, including a high interest rate regime based on inflation targeting and austerity-minded fiscal policies, favoured financial rentiers and large corporations. These large corporations reduced their South African operations as a share of their overall operations (Bosiu *et al*., 2017) (see figure 4). They became increasingly financialised at the same time (see Mohamed, 2010, 2017). However, these policies hurt the real economy because they are associated with deindustrialisation and the increasing precariousness of employment for those who have been able to find and keep jobs.

At the same time, every sector of the South African economy has remained highly concentrated. The subsidiaries of the large corporations that restructured and listed offshore remain dominant. Mondliwa and Roberts (2019) explain that maintenance of long-term rights and regulatory access during the post-apartheid period explains why the subsidiaries of conglomerates that dominated the economy during the 1980s (and unbundled during the 1990s) continue to dominate most subsectors of the economy.

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A system of accumulation analyses of South Africa's economic problems

Fine (2019) and Fine and Mohamed (2023), argue the system of accumulation in South Africa has become a minerals-energy-finance complex (MEFC) to take account of the impact of financialisation globally. Accumulation within South Africa had been influenced by financialisation at a global level and within the domestic economy. The finance sector was an important part of the minerals-energy complex (MEC) that grew to support the development of the large corporations (Fine and Rustomjee, 1996). The highly concentrated character of the South African economy and the high level of concentration of wealth and inequality were shaped – not exclusively but very much so – by the MEC. By the 1980s, and during the transition from apartheid to democracy, a few large corporations controlled around 85% of the market capitalisation of the Johannesburg Stock Exchange (JSE). In Mohamed (2020), I discuss the Anglo American Corporation (AAC), which had been a major force in shaping the MEC, a strong influence on the apartheid state and controlled around half of the market capitalisation of the JSE during the 1980s. During the 1990s, AAC and other large diversified conglomerates had embarked on a process of unbundling. Some moved their primary listings abroad and most of the other large corporations were cross-listed on other stock exchanges.

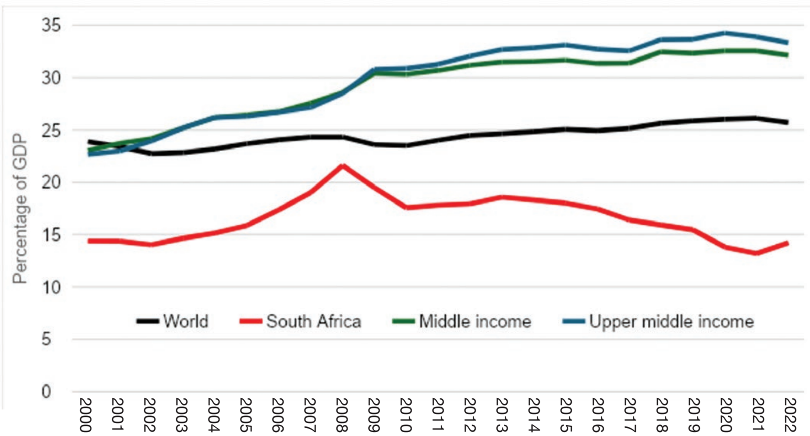
Palma (2022) describes what happens when large corporations of developing and emerging economies increase their integration into the global economy. They "are the ones leading the process of financialisation at home. They not only were the main agents engineering the domestic reforms that led to this new reality, but they are also the ones that have benefited most from it" (p.28).

South Africa was not the only developing country to adopt neoliberal economic policies. But what has become clear from examining this process of neoliberalisation of countries that led to international financial subordination by DEEs, including South Africa, is that states became partners to the rent seeking activities of the large corporation (Alami *et al.*, 2021). The South African government gave up its ability to adequately regulate and discipline the large dominant corporations and thus subjected themselves to the discipline of large corporations and credit ratings agencies.

For pragmatic and/or ideological reasons the government of South Africa chose not to pursue a developmental state path. The government supported financialisation through liberalising domestic financial markets and capital controls. They did not try to correct the misallocation of capital within the South African economy. They liberalised capital controls and chose not to make much effort to curb large-scale capital flight, both legal and illegal. In fact, the government provided two amnesties, in 2004 and 2010, to residents who held money abroad illegally (Ashman et al., 2011). The loss of political will to regulate and control finance seems to have reached such a low that South Africa was grey listed in 2023 by the global intergovernmental Financial Action Task Force for non-compliance with its recommendations against money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction. In Mohamed (2017), I discuss the theoretical and empirical literature that shows that misallocation of capital because of financialisation is associated with lower levels of investment, particularly in productive economic sectors, and directs more money to speculation in financial and real estate markets.

Figure 5 shows that levels of accumulation in the South African economy have been low compared to global averages for the world, middle and lower middle-income countries. South Africa has not been able to achieve adequate investment levels of over 25% of GDP even during the period 2003 to 2008 when credit extension to the private sector increased by around 22% of GDP. During that period gross fixed capital formation (investment) by private enterprises increased by only 4% of GDP (Mohamed, 2017). It is also clear that most of the investment has gone into services sectors and not productive sectors of the economy. Zalk (2021:32-33) argues that claims that low corporate profits are the cause of low investment in South Africa are incorrect.

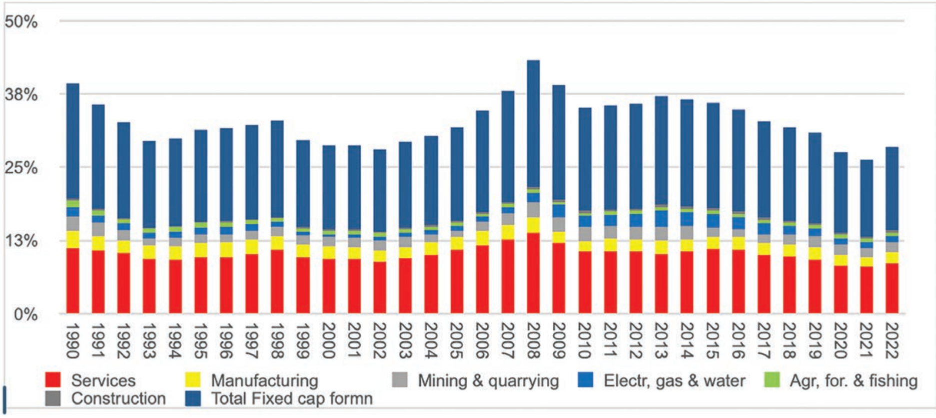
Figure 5: Gross fixed capital formation as a percentage of gross domestic product



Source: World Bank World Development Indicators

It is generally recognised that the manufacturing sector, particularly downstream value-added manufacturing subsectors with strong linkages to other economic sectors, remains the engine of industrial development and economic growth within an economy. While the manufacturing sector does not usually employ the largest share of people in an economy, the dynamism, size and variety of manufacturing activity in an economy has an important influence over the types of services subsectors and services sector jobs in an economy. A large productive sector will generally induce and support the growth of productive services sector businesses and jobs.

Figure 6: Gross fixed capital formation by sector as percentages of GDP

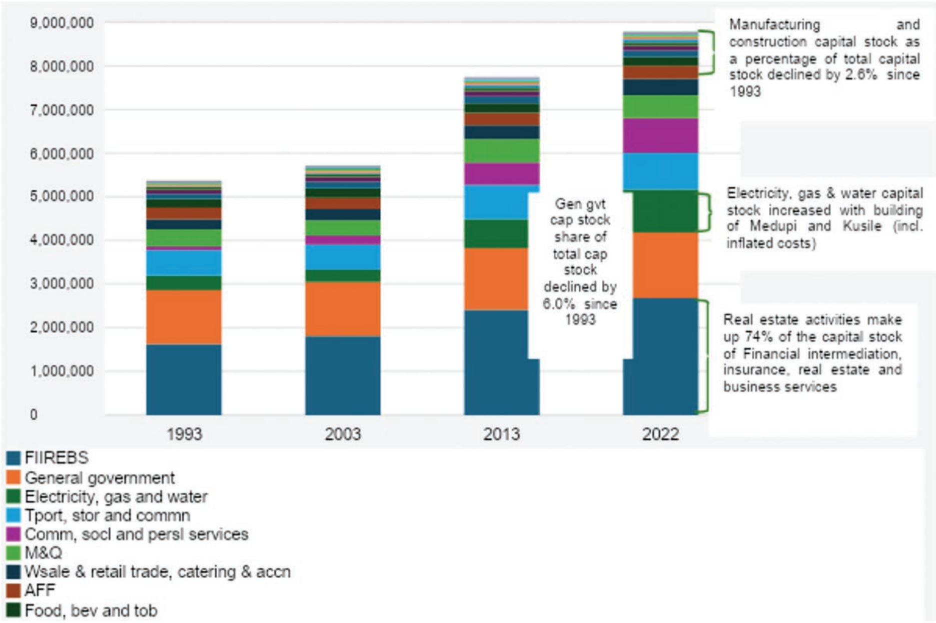


Source: Author's calculations on Quantec's South African Industry Indicators

The industrial structure that developed within the MEC system of accumulation in South Africa was relatively undiversified and consisted mostly of capital and energy intensive, low value-added processing activities with strong linkages to the mining sector. This situation has not changed but the share of manufacturing value added in GDP has shrunk while that of services has grown. Industrial and economic development is path dependent. The economic structure is shaped by investment and skills development (amongst other activities) over a long period. Since 1994, the large corporations that have dominated the markets of the economy have increased operations and shifted capital abroad. They have financialised and not allocated capital towards manufacturing.

According to Quantec's Industry Indicators, employment in manufacturing declined from about 1.8 million in 1993 to 1.4 million in 2022. Employment in services was seven million in 1993 and 11 million in 2022. The decline in manufacturing investment means that most services jobs are not in productive services sectors linked to manufacturing. A total of 78% of services jobs in 2022 were in three services subsectors, community, social and personal service (31%), wholesale and retail trade services (26%) and business services (21%). Most of these jobs, including business services, were outsourced cleaning services and private security services, which have been growth industries and are generally precarious (informal, casualised and outsourced). Therefore, South Africa is not well placed to take advantage of possibilities for skills development and the application of the fourth industrial revolution and advances in artificial intelligence in the productive sectors of the economy.

Figure 7: Real levels of capital stock for all economic sectors (R millions, 2015=100)



Source: Quantec

Because economies are path dependent it is important to examine the changes in capital stock for different economic sectors. Changes in capital stock provide insight into the economic growth path and a sense of where future economic activity can occur. Figure 7 shows that the largest capital stock growth was in the finance, intermediation, insurance, real estate and business services sector (FIIREBS). While the financial services subsector's value-added contribution to GDP has grown and the business services subsector has had increased employment, most capital stock in the FIIREBS sector (around 73% in 1993 and 74% in 2022) was in real estate activities. Real estate and finance are two sectors where misallocation of capital in the economy towards speculation has grown as the economy has become financialised.

Clearly low levels of investment and low levels of capital stock indicate that manufacturing (the engine of economic growth) activity cannot increase much for a long while. The government will need more than industrial policy to grow manufacturing.

It will have to address market concentration and the allocation of capital by the large corporations, particularly those in the financial sector. Development finance will have to be greatly enhanced. At a macroeconomic policy level, the damaging impact of inflation targeting will have to be reconsidered because of its deleterious impact on investment and aggregate demand. Monetary policy dominance will have to be reversed and made to accommodate expansionary fiscal policy. Austerity mindsets will have to change and fiscal policy that adequately supports industrialisation and reduces household poverty to boost aggregate demand is required.

In other words, the government will have to recognise that redistribution and a developmental role for the state is essential. An active government role in improving the wellbeing and increasing incomes for the majority of households will be crucial for productivity growth and to create the domestic demand and markets for manufactured goods and productive services. Without an inclusive developmental vision, the South African economy will continue to languish with the current high UPI and stagnant, near recession levels of economic growth.

...neoliberalism in the domestic economy has overwhelmed the generally inadequate and self-defeating efforts of the government to address the legacy of apartheid.

Conclusion

The question addressed by this article is how to explain the poor economic performance of the South African economy since the end of apartheid. A central thesis of this article is that the economic failures of the post-apartheid government – by choosing to adopt neoliberal economic policies and not taking on a developmental state role – facilitated the large dominant corporations in denuding, deindustrialising and financialising the economy. As Palma (2022) discusses, neoliberalism has allowed the corporate elites to pursue high short-term returns through misallocating capital from productive sectors towards speculation and “lazy” rent-seeking activities.

It is important to understand that the South African government's neoliberal choices have led them not only to utilise but also to build capacity and support the hegemony of mainstream neoliberal and neoclassical economics in government, universities and thinktanks. It is not hyperbole to argue that the mainstream, orthodox neoclassical analytical and theoretical approach to understanding, policymaking and managing the South African economy has been an essential contributor to exacerbating the unemployment, poverty and inequality crises and other economic failures during the post-apartheid era. Neoclassical economics has been used to develop, support and justify neoliberal economic policies. The mainstream macroeconomics flawed perspective is that governments cannot use macroeconomic policies to stimulate or promote economic growth. Monetarist theory warns that government attempts to stimulate and grow the economy will not lead to growth but will cause inflation. The new classical macroeconomics approach within the neoclassical theory is based on rational expectations where any attempts by the government to intervene in the economy will be ineffective because the government's actions would have been expected by rational agents whose response to these expectations would neutralise the government's interventions. These disproven approaches advocate removing macroeconomic policy choices from sovereign, democratically elected governments. They favour inflation targets, independent central banks and fiscal rules (in pursuit of government budget surpluses). Their fear is that governments will pursue inclusive economic policies, which the orthodox economists describe as populist, to address poverty and to stimulate the economy during times of crisis.

The South African government's macroeconomics policies have failed the economy since 1994. Their austerity mindset led to a policy of fiscal consolidation since 2012. This austerity has contributed to real GDP per capita declining since 2013 (to a level lower than it was in 2007). Notwithstanding these glaring failures, the National Treasury (NT) has led the government in arguing that macroeconomic policy is sound. They say that all that is required to improve economic growth are microeconomic, supply-side structural reforms. The solutions offered by the NT's 2019 document to promote economic growth in South Africa are:

- fixing network industries,
- reducing red tape,
- increasing labour market deregulation for flexibility;
- use of competition policy to increase competition, and
- a mention of industrial policy (without explaining how it would be implemented).

The government's definition of structural economic concerns has deliberately been interpreted in a narrow sense where the problems are identified as related to government actions and regulations, red tape and worker organisation. The government chooses to identify and blame problems in Eskom and Transnet, corruption and state capture for the poor performance of the economy. No doubt these problems have exacerbated the poor economic performance of the economy but these problems seem to be the consequences of the deeper structural problems that have crippled the economy since 1994.

The government's structural reforms are based on a simplistic calculus that actions within certain sectors and reducing red tape will cumulatively add several points to GDP growth over time. They do not aim to transform the structure of the economy but aim to improve conditions for business and to reduce their costs. In other words, the structural reforms – if surprisingly they were to work – are meant to improve business conditions and lower operating costs for existing financialised large corporations that dominate the highly concentrated South African economy. Their ahistorical orthodox economics that does not consider institutions and economic structure has led them to a solution for the South African economy that supports and further empowers the financialised, lazy, rent-seeking large corporations. They do not seem to want to understand that growing unemployment, poor investment and derisory levels of accumulation of capital stock since the 1990s are strongly associated with the behaviour and choices of these large corporations. These policies clearly benefit the minority in society who actively defend, normalise and promote inequality. This ignorance contract is widely promoted by political parties and some scholars and is in part facilitated by the spatial insulation of elites in suburbs. It persists with the myth that South Africa is not in a deep crisis, that democracy and the state still work and that all we need to do is get back to a "capable" state of the kind we saw before 2008, create more precarious jobs and stabilise our party-system.

Palma (2022) reminds us that the international and domestic elites have fought for implementation of neoliberal economic policies and he says they "played a crucial role in transforming neoliberal ideology into a hegemonic paradigm". This neoliberal (and often violent) hegemonic transformation is associated with the 'Chicago Boys', which was a group of economists trained by Milton Friedman and others in the neoclassical economics department at the University of Chicago. The Chicago Boys took up positions in the governments of the Chilean military dictatorship and in other South American countries.

Unfortunately, almost 50 years since the Chilean coup and 40 years since the imposition of structural adjustment programmes, the South African government (supported by elites of large corporations) ignore the lessons of history and are still pursuing damaging neoliberal economic policies that impose an unprecedented degree of suffering on the majority of South Africans. NA93

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ENDNOTES

1. The Palma ratio measures inequality by dividing the income of the top 10 percentile by the income of the bottom 40%.
2. See https://www.imf.org/en/Topics/Inequality/introduction-to-inequality (accessed 25 April 2024).
3. See https://www.fordfoundation.org/news-and-stories/big-ideas/inequalityis/joseph-stiglitz-on-inequality-and-economic-growth/ (accessed 25 April 2024).