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NEVA MAKGETLA: New perspectives on SA's economics are required

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Picture: ISTOCK

Searching for "economist" in Power Point clip art produces the following images: two cartoons of white men, one pointing to a graph and the other using a calculator; a pile of money; more graphs, all slanted upwards; and a man holding a dollar sign.

If that is how people imagine economics, it needs to be decolonised. Economic theories are rooted in foreign realities and they need to be rethought for South Africa.

Economics is often discussed in the abstract, as if it has no relationship to the confusing reality of everyday life. Arguments are illustrated with imaginary "widgets", rather than real goods and services. Proposals are tested against

formal models to simulate economic trends. The desirability of the free-market equilibrium is preached, where supply equals demand and presumably everyone is that much happier.

These bloodless theorems seem to describe a fantasy world. But they are an abstraction from a reality — just not South Africa's.

Requirements for socially efficient markets include many producers and consumers, so that over time prices will be pushed down to provide just the normal rate of profit. That implies relative economic equality. Consumer demand will largely reflect citizens' economic needs and desires. This model resembles reality in much of the industrialised world, but it fails in SA.

In most industries, a few large companies dominate production, partly due to apartheid laws that suppressed black-owned enterprise by limiting access to land, infrastructure and finance. Since South Africa has a relatively small economy, a few modern producers can often supply most domestic demand.

The country is characterised by deep inequalities in incomes and wealth. The richest 10% of households account for almost half of market demand; the poorest 50% for about a sixth. Relying on markets, even otherwise efficient ones, will leave most South Africans behind.

The housing market is economically efficient in that it provides a wide variety of options for those who can pay. But most families cannot afford any formal housing. In effect, they are not market players at all and the market will not respond to their needs — unless the government pays for them.

Instead of directing attention to inequality, orthodox economics insists countries should focus narrowly on boosting growth. While rapid economic growth would go far in solving other social and economic problems, from improving services for the poor to investing in infrastructure to raising employment, the rates of growth required are often pure fantasy. Growth of 5%-7% is prescribed. If sustained for long enough, that would double GDP.

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According to World Bank data, just six of the 56 upper-middle-income economies averaged growth of more than 6% a year in the 10 years to 2015. Growth in South Africa over the past 10 years averaged just 0.7% lower than the (weighted) average for upper-middle-income economies excluding China. In purchasing power parity terms, when South Africa's growth dropped to 1.3% a year in 2015 the other middle-income economies outside of China collectively shrank by a tenth of a percent.

Inequality sabotages growth, as shown by International Monetary Fund research. Fast-growing East Asia countries built strong redistributive systems in the 1950s, laying the foundation for rapid growth. Given climate change, the ecological costs of rapid growth may also soon be overwhelming.

Ratcheting up growth is unlikely to solve all SA's problems. Striving for equality requires rethinking core tenets of orthodox growth strategies and heterodox industrial policy.

Calls for blanket nationalisation reverse the orthodox treatment of growth and inequality, but are equally abstracted from the country's realities. Experience with state-owned companies such as Eskom and South African Airways does not provide much comfort that expanding government ownership would solve the economic and social ills.

There have been efforts internationally to rebuild economic theory to respond to the needs of historically excluded groups. To make economics relevant to women requires analysis of production that takes place in the family, outside of markets. Similarly, dependency theory studies economies that were moulded by colonialism to export commodities.

The strength of the decolonisation hypothesis is the acknowledgement that apparently general theories, in fact, describe the global north. The canon of general theories, on the right and the left, provide only a guide to be tested against South African realities. The insights those theories generate about South Africa must be tested against the

evidence and modified to meet local needs.

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