# World economic crisis:

## Warning bells for sub-Saharan Africa

There is no point for South African market fundamentalists to call for protection against the economic crisis that has hit the United States and Europe because the country is already in the belly of a crisis. There are high levels of poverty, unemployment and inequality, writes **Bhabhali Ka Maphikela Nhlapo**.

There has been so much talk on the causes of the 2008 economic crisis. What is more puzzling in the discussions is that most South African-based market fundamentalists are using the crisis to attack the Left. They argue that the country was saved from the crisis by the Growth, Employment and Redistribution (Gear) Strategy that was adopted in 1996. As a result we were not forced to take austerity measures as in the case of the PIIGS (Portugal Italy, Ireland, Greece and Spain) countries.

This is indeed cheap talk that trade unions and the working class must reject. However, such conversation should be based on evidence rather than the sentiments and emotions of capital. Therefore, it is important to trace the causes of the crisis and understand how the PIIGS and the rest of Europe got affected.

### CREDIT SPREE

The economic crisis started with major banks in the United States (US) experiencing a crisis because of poor lending practices. For a long time the banks, including those in South Africa, went on a credit spree giving huge loans and credit to the poor. In the last 10 years it became fashionable for clothing and even food stores to give consumers credit facilities such as shopping and credit cards. In some bizarre and extreme instances, credit was even given to unemployed people.

With the way things worked at that time, consumers bought first and worried about paying later. In the US easy credit was made available on a big scale. Many consumers were encouraged to borrow and live beyond their means. The banks moved away from financing firms that produced goods and products to providing money for consumption. This happened simply because banks made more profits without ever thinking of the negative consequences for industries, job creation and society in general. This is largely due to capitalism's never-ending lust for profits, no matter the costs.

The other area of the crisis was the housing sector. The banks saw this sector as another cash cow. They also influenced the borrowing of money by those who already had houses leading to refinancing of properties to the benefit of capital. Therefore some consumers were forced to re-finance their most valuable assets.

The housing sector then started to experience a boom where everyone needed to invest. The prices of houses shot up making them unaffordable to many. With the increase in the cost of living, most debtors defaulted on their bonds.

Rising house values and the failure of the borrowers to repay their loans led to the bursting of the housing market bubble and the fall of the stock markets. The crisis began. The banks were then bailed out by the International Banking Society using public and not private funds. The US government was quick to address the situation, even though capitalists never agreed that they created the problem in the first place. Therefore, no public money was needed to finance big business.

However, as the crisis has spread to the PIIGS the fear is that soon workers in South Africa will be affected. There is so much talk, even by government officials and our leaders, of protecting our countries from the crisis. It is so unfortunate

that a country like South Africa, that is already in the middle of its own crisis, can talk of any insulation. How can these officials even justify their views when such high levels of unemployment, poverty, illiteracy, and inequality exist?

We need to agree that the crises in our country and the sub-continent, are way ahead of the Eurozone and the Americas, as shown by our poor economic indicators. These officials and leaders are attempting to convince us that South Africa will not be immediately affected because of the effectiveness of Gear.

### EUROZONE DIFFERENT FROM SA

The PIIGS countries' situation therefore comes about due to a variety of factors that we do not have as a developing country or region. For example, the US dollar is trading lower than the Euro. This suggests that all Eurozone countries have stronger economies to that of the US. However, this is not necessarily the case as only Germany, Britain, and France and to some extent Switzerland's economies are somewhat comparable to the US.

The other Eurozone countries came screaming for Euro integration clearly aware that they had low financial reserves. Others like Britain and Switzerland have until today not bought into the Eurozone concept. The PIIGS countries, being the poor cousins, have therefore not adjusted to the Euro integration because they had inadequate reserves to support their former currencies. The other reason of the sudden problem of the PIIGS countries has been the US crisis itself. When the US banks realised that their economy was in recession they withdrew their capital from markets like the PIIGS and invested it in the US so as to salvage their homeland. This was then the first real taste of the crisis for the PIIGS.

It is puzzling that market fundamentalists do not agree with these points. They doubt whether huge withdrawals took place but do not discuss why developing countries were not as affected as the PIIGS. What they fail to appreciate is that world trade statistics suggest that developed countries enjoy about 70% of trade exchanges, whilst the developing countries only enjoy 30%.

Interestingly, 20% of the 30% of world trade goes to China and India leaving only 10% for developing countries. This means that most world trade happens between developed countries themselves. Therefore, if the withdrawals happened only developed countries like the PIIGS would be adversely affected rather than the developing countries with less capital inflows from the US.

The other reason for the PIIGS problem is high indebtness to the French and German banks and, admittedly, the problem of poor productivity in their economies, which was rewarded with high salaries over the years. This has co-existed against the comparatively low salaries versus high productivity levels in largely the northern states of the Eurozone such as France and Germany.

Furthermore, the PIIGS borrowings over the years were meant to sustain the failures of the states to fund the public sector services and the salaries of their workers. Unfortunately, the market fundamentalists use this argument to attack South African labour. They argue that had South Africa not adopted austerity measures in 1996 through Gear, we could have also landed in the same boat.

These arguments are false, for even with Gear the socio-economic problems of the country have not changed and have in fact strengthened white monopoly capital through the Black Economic Empowerment (BEE) buffers and worsened the lot of the working class. This unfortunate comparison of the PIIGS countries to a developing country fails to take into consideration basic economic fundamentals of the two situations. For instance, before the crisis South Africa had an unemployment rate of 25-35%. In comparison, countries like Ireland and Spain were moving (before the crisis) from figures like 4.6 and 8.3% to 11.9 and 18%.

The problems of the European Union dictatorship of choosing political leadership for their governments and even the policy choices should be viewed for what they are, a simple failure of the liberal system of democracy, which is the daily worldwide 'feedstock' of market fundamentalist policies. They can't be seen as a result of the market, but rather the power of the Euro financiers over those of their elected governments and the fact that since the advent of the European Union their governments now exist only on paper.

These governments failed to dictate to Germany earlier on its expansionary fiscal programmes that increased government spending in order to increase demand and stimulate the economy. Therefore, this means that while the world had economic and financial crises only those countries with strong state control over capital flows, economic policy choices and the markets like Germany, US and China remained stable.

It should also be noted that in the beginning of the crisis when France proposed joint European expansionary policies it was criticised by Germany amongst others. This was truly an act of ensuring that the rescue operation that Germany had undertaken need not help others. If it did so there would be no markets for German banks to lend out to in the Eurozone or its exploitation of the circumstances of the PIIGS countries

There are two reasons why the PIIGS countries situation and the Gear choices for South Africa

William Matlala

Fetching firewood by rural women in SA exposes the crisis.

are different. For instance, our choices were not forced upon us. As a country we made wrong policy choices that led to high unemployment, massive poverty and one of the world's greatest inequality levels.

The PIIGS countries, on the other hand, do not have the same problems as we do and are part of the developed world as they play in that league. We are also at times duped by our representation in the G20 and the Security Council membership to think that we are in the big leagues. Unfortunately our economic fundamentals suggest the opposite.

To highlight the differences between South Africa and the developed world it is necessary to review the International Labour Organisation Global Employment Trends for 2011. There are three critical factors mentioned in the report's analysis of the impact of the global crisis on sub-Sahara Africa.

'The impact of the economic crisis has generally been less severe in low income economies mainly due to their limited trade and financial linkages with the global economy', reads the report. This shows that some announcements made at high levels of government do not recognise the situation on the ground.

Also singing from the same hymn book are Treasury officials who say we were shielded from the crisis by proper controls in the banking system. However, this is not true since the banking system is even more vicious when compared to its European counterparts.

For instance, it has been repeatedly reported that the costs of banking in our country higher when compared to all our trading partners. We also know that the housing asset price bubble and even the credit crunch in our country are similar to those of the developed world. The only cushion has only been our limited exposure

to the international markets and the lower volumes of trade especially in the short term that has made us a bit 'better'. However, if we compare our economy to that of Europe we have always been in a crisis.

'Accelerating the progress on the achievement of decent work in sub-Saharan Africa requires more resources and better economic and social policies', continues the report. Now here is a tripartite institution clearly arguing that fiscal austerity and less government intervention is a myth and is not a solution to the problem of our countries.

Social safety nets are also needed. 'Another imperative that was underlined during the economic crisis is the need for social protection and safety net measures, not only to function as automatic stabilisers, which help mitigate the impact of volatile economic growth, but also to support the large number of employed and unemployed living below the poverty line.'

Finally, the market fundamentalists' argument for the deregulation of the labour market has no evidence and even support. The International Labour organization (ILO) recently concluded a study in more than 40 countries to examine this notion of labour market flexibility that Treasury officials, Minister Pravin Gordhan, labour brokers and even the opposition always rally around. It came to a conclusion that there is lack of evidence of any relationship between the labour market flexibility and higher levels of employment creation at all, let alone protecting those in current employment and even unemployed young people.

## ECONOMIC TRANSFORMATION

The Congress of South African Trade Unions (Cosatu) in its 11 September 2010 Growth Path document clearly argued that for economic transformation to happen we need to create full employment based on the principles of decent work. To achieve this it argued for public works programmes employing mostly the disabled, young people, and women and households that have no income.

Cosatu further argued for the redistribution of income and power through collective and public forms of ownership to balance against colonial land dispossession and the few black enrichment programmes. State support for local industrial development is also needed.

The meeting of basic needs of employment, health, housing and education and training was important. Additionally, environmental sustainability was important in minimising the disruption of natural processes and degradation. The fulfilment of international obligations to foster economic and cultural integration through the development of Southern Africa was critical. Cosatu argues that this will also help to stop the high migration levels that are caused by extreme poverty in the region.

The Left and organised labour therefore cannot leave capital's claims unchallenged. We must continue to argue for strong state control over the economy and say no to capital controls, free markets, social spending austerity and financial integration to capitalist markets. These policies have proven to be strong pillars against market fundamentalism, which is a route to the misery of the greater majority of the peoples of the world.

The developments between the EU and Greece should be a warning lesson that countries with large economies can erode the political power of countries with smaller economies through economic muscle. This has been demonstrated by Germany's support of the proposal for Greece to surrender her budgetary control powers to the EU. This would have then allowed Greece to meet the fiscal targets set out by international lenders who are the International Monetary Fund (IMF), the European Central Bank and the European Commission.

This support should be seen for what it really is, the protection of German interests since the country is one of the prime funders to the three institutions. This is the risk that the crisis poses on the rest of the PIIGS countries.

Developing countries have always been dictated to in terms of economic policies since colonialism. The crisis therefore is another opportunity for the developed countries to find means of controlling macro-economic policies of developing countries. Therefore labour unions must work tirelessly to strengthen their governments in pursuing real developmental agendas as a strategy against the crisis as opposed to being dictated to by the developed world.

We also can't afford to listen to the banks for solutions as they were responsible for the crisis in the first place. We should rather strengthen the states so that they are able to strictly regulate the banks not to cause other problems because of their greed.

We should learn from the experiences of the developed world where banks soon forgot that the state had saved it and started their speculative attacks on the same states. This is also another major reason why developing countries now suffer from poor international financial ratings and further crises. As Frank Hoffer of the ILO has noted, this has been made easy by the insufficient financial market regulations that led to capital flight and massive tax evasions and then led to the speculative attacks on the currencies. LB

*Bhabhali Ka Maphikela Nhlapo is a skills development coordinator with Cosatu.*