From the unthinkable to the unmentionable

Is South Africa immune to the global financial crisis? **Jeremy Cronin** thinks not, but he sees in this economic crisis opportunities for change.

In South Africa, the global economic crisis presents the left with both possibilities and challenges. Transformation of our economy is more necessary but also more difficult as declining global demand for our exports will impact on jobs and state fiscal resources.

Neo-liberals are fighting an intensified ideological battle to prevent democratic debate on economic policy and change. The mid-1990s saw a similar battle, which included threats about what global markets would do to South Africa if we challenged neo-liberalism.

This is being repeated. Last time, we were told there were no alternatives to the Washington consensus. Now we are told that the crisis of this same economic agenda is so great, we had better not risk changing anything. These were the sentiments of the outgoing deputy finance minister, Jabu Moleketi, before the October 2008 Alliance economic summit. He told the London *Financial Times* that it would be suicidal for South Africa to change economic policies. He said that our economy has achieved years of stability but, conversely, he also claimed that it survived at the mercy of foreign investors.

After the economic summit finance minister, Trevor Manuel, told the *Financial Times* that it is no longer possible to contemplate state-led job creation programmes because of the crisis in the global economy. But in 2000 when there wasn't a global crisis, he told the *Sunday Independent* that governments are impotent when it comes to creating jobs. A few years ago, change of economic policy was supposedly unthinkable, now it's unmentionable.

"BUT IS IT AFFORDABLE?"

A variant of the above argument is the affordability argument used by the ANC. There will be fewer fiscal resources available to government in the coming years as declining profits hit tax revenue, and our social security net is likely to come under increasing pressure as global recession hits jobs. But, while affordability is relevant, we have to be realistic about these challenges and not waver from our strategic and programmatic direction.

In the mid-1990s we lost our way when, in the name of finding the resources to deliver on RDP (Reconstruction and Development Programme) promises, the programme was reduced to a list of delivery targets. Government adopted GEAR (Growth, Employment and Redistribution) which replaced developmental transformation with stabilisation and re-stimulation of growth as the key priorities. Development was described as redistribution stemming from growth, while the stabilised and moderately stimulated growth proceeded to reproduce the same old systemic features of racialised underdevelopment.

This time we are making it clear that it is decent work and sustainable livelihoods that will be the key indicator of progress. Key features include:

- Breaking the grip of private monopoly cartels and ensuring a more balanced development of small and medium-enterprises with a capacity to create jobs.
- Achieving a better balance between production for export and local markets, ensuring that trade policy is governed by industrial policy.
- Strategically coordinating energy policy and ensuring greater national control over energy and long-term sustainability of supply, with a rapid greening of our economy.
- Paying greater attention to food security.
- Consolidating our state owned enterprises and Development Finance Institutions, ensuring that their strategic development mandates are aligned and clear.
- Reconfiguring the state apparatus to ensure that budgets are determined by strategic and planned priorities, that macro-economic policy is shaped according to developmental priorities, and that professionalism and

technical capacity is improved.
- Embracing a southern African regional and South-South dimension to our industrial policy and broader developmental strategy.

Four other integral components are health-care, education, rural development and community safety. Deepening global recession may have consequences for the scale of meeting our strategic developmental priorities so we need to monitor and evaluate outcomes and make appropriate adjustments.

SEVEN SA ECONOMY MYTHS

Myth 1: "Over the last decade South Africa has witnessed unprecedented growth."
Between 1994 and 2003 growth averaged at 3%. Between 2004 and 2007 it averaged at 5%. Although an achievement, a decade of growth is not unknown in South Africa. From 1963 to 1973, the apartheid economy grew at 7-8% but in the last decade of apartheid, there was negative growth for most years until the early 1990s. To produce growth out of this was not difficult. It is likely to now dip to 1%, if not down to negative growth and recession.

Myth 2: "We have managed our economy well since 1994."
The last 15 years has coincided with huge global growth. A major commodity boom has benefited most of our key exports. But now with a prolonged global recession in sight, and with a slackening demand for commodities, we have to admit that we have not used the boom years to place our economy on a sound, sustainable and equitable basis.

Myth 3: "All the basic economic fundamentals are in place and shouldn't be tampered with."
Retrenchments have soared in the past 15 years, unemployment peaked as did wide-scale casualisation and widening income inequality. However, important social programmes helped to lessen levels of poverty. The idea that economic fundamentals can be reduced to a few macro-economic indicators, while ignoring unsustainable levels of unemployment and inequality, is a bourgeois class-biased assumption.

Myth 4: "Owing to sound economic management, South Africa is a safe haven in the current global turmoil."
In June 2008, the Bank of International Settlements rated South Africa as one of the states most at risk in the turbulent global reality. Our current account deficit has worsened and remains vulnerable. The fact that South Africa has become a food importer for the first time ever is a further problem. The lower value of the rand will improve our export competitiveness but the global downturn will lessen demand for our exports. The global downturn has brought down the price of oil, but this decline is partly offset by the depreciating rand.

Myth 5: "Our financial sector is healthy."
Although our apparently well-regulated financial institutions have not been as severely exposed to toxic loans as international counterparts, they have not been immune. We also can't boast of a healthy financial sector when we had one of the world's worst housing price bubbles. Household debt has quadrupled in the past five years as over 6 million South Africans spend 82.3% of their income servicing debt. In 2000, 6 000 vehicles and 2 000 homes were repossessed every month.

Many BEE (Black Economic Empowerment) deals involve complicated financial gearing which provide the beneficiaries with shares that they must repay out of gains. With no saved capital and the stock market down, the unpaid debt will, in many cases, be passed into our banking sector.

Myth 6: "The choice is between no-change or imprudent macro-populism."
Our key priorities need to be job creation, improvements in education, health-care and the criminal justice system, and serious rural transformation. These must not be handled as trickle-down welfarism, but as integral components of a state-led industrial programme that transforms our excessively commodity-based, export-dependent and capital-goods, import-dependent growth path.

Myth 7: "Thank God."
South African financial institutions appear to be less vulnerable to the US sub-prime crisis than institutions elsewhere. Trevor Manuel has resisted the removal of exchange controls but has introduced 26 relaxations of controls over the past eight years. The presence of some exchange controls isn't due to miracles, God, or Manuel – it has to do with struggles from within the ANC, SACP (SA Communist Party) and Cosatu (Congress of SA Trade Unions). The SACP-led Financial Sector Campaign compelled the Treasury Department to deal legislatively with our financial institutions, resulting in the Credit Act and the extension of banking to a wider internal market. These measures, along with exchange controls, have played a key role in protecting our banks from the global crisis.

We should never forget that transformation of our economy cannot depend upon a developmental state alone, it requires popular participation and monitoring and evaluation. LB

This is a shortened version of a paper 'The present economic crisis in the world capitalist system – and prospects for the left' delivered to the Chris Hani Institute on 28 January 2009. Jeremy Cronin is the deputy general secretary of the South African Communist Party (SACP).