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NEVA MAKGETLA: The budget, growth and redistribution

Structural factors that slow growth are ignored, especially mining dependency and inequality

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by NEVA MAGKETLA

Picture: 123RF

As a strategy for your future you could say: I've got three kids. I'll make the oldest go to university but not bother educating the others, because the privileged one can support me and their siblings for the rest of our lives. This is not a recipe for happy families or for getting out of poverty. It requires heroic assumptions about the capacity and generosity of the oldest child, as well as their siblings' patience.

Yet that's essentially the strategy the 2024 budget proposes for SA. It argues that government should accelerate growth, then use some of the proceeds to redistribute incomes to the majority. It doesn't lay out a strategy to boost the economy, but implies that the key is improved services for established businesses. The budget simply ignores structural factors that slow growth, especially mining dependency and the political-economic impacts of SA's glaring inequalities.

In the real world, few countries sustain high growth. From 2010 to 2019 — that is, before the Covid-19 depression — only seven of the 53 upper-middle-income economies, which include SA, exceeded 5% growth a year. The lucky nations were a random crowd: China, Turkmenistan, Maldives, Turkey, the Dominican Republic, Indonesia and Malaysia. For all upper-middle-income economies, excluding China and SA, average annual growth in this period was 2.6%.

SA's growth was unusually low from 2010 to 2019, ranking 44th in the group.

From 1994 to 2007 the country's growth seemed to recover from the crisis of apartheid, catching up to the average of peer economies at just more than 3% a year. However, from 2008 it increasingly fell behind. From 2019 to 2022 the economy expanded just 0.1% a year, compared with 1.6% a year for other upper-middle-income countries outside China.

The pronounced slowdown results in part from SA's persistent mining dependency. More than half of its exports derive from the mining value chain, including refined metals and coal-based petrochemicals. That is hugely beneficial when prices are high — but they don't stay high for long. Export revenues from basic mining products, led by platinum, coal and iron ore, climbed almost 50% from 2019 to 2021, but since then have fallen back nearly 20%.

World's worst

The slowdown also reflects the challenges of managing a deeply unequal economy in a democracy. Persistent inequalities open the door to state capture. They undermine individuals' hopes of achieving prosperity through legal routes, while vastly increasing the returns from corruption. Yet, growth by established business has not substantially improved conditions for the majority.

Since the transition to democracy, even when the economy kept up with its peers, only just more than 40% of the population was employed, compared with the norm of more than 60%. Moreover, inequality of incomes and asset ownership remains among the world's worst. In these circumstances it is politically difficult for the government to invest in substantially improved services for established companies.

Consider the crises that have slowed the recovery from the pandemic. The unrest in July 2021 was an obvious result of deep inequalities. An upsurge in cable theft from

Transnet sharply slowed coal exports a year later, reflecting the organised criminality that is built into unequal societies.

Government was astonishingly slow to respond to load-shedding, partly because letting big business go off grid seemed to favour an already privileged group.

The first-best solution to SA's economic ills is to build a real middle class. That requires vastly stepping up measures to address the roots of inequality — continued substandard education and infrastructure in working-class communities, and inadequate government support for labour-intensive industries, especially services, agriculture and light industry, and for small business and the social economy.

The budget's strategy of supporting established businesses may seem less disruptive and risky, but ultimately it dooms SA to continued stagnation and conflict.

• Makgetla is a senior researcher with Trade & Industrial Policy Strategies.

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