Political Economy of Development

---Ben Fine

I first met and got to know Harold in the mid 1980's. He had set up RESA, Research on Education in South Africa, in London and I was involved in a parallel initiative EROSA, Economic Research on South Africa. This ultimately led to a request in early February 1993 from the highest levels for a policy document alternative to that being proposed by the outgoing apartheid government and the World Bank and IMF. This was duly delivered six months later as a the MERG report but was rejected out of hand by leadership in a process ultimately leading to GEAR and what has now some 15 years later been recognised to have been an inappropriate path and transformation as GEAR has slowly but painfully given way to AsgiSA, the development state, the New Growth Path and the National Development Plan. In my contribution today, I want to ask three questions.

1. What has happened?
2. Why did this happen?
3. What are the challenges for the future?

I will also bring to bear four qualities that were characteristic of Harold's own work.

1. Scholarship should be grounded in historical and contemporary realities.
2. Theory and method are indispensable
3. Analysis should not be politically engaged
4. The results should be analytically fearless

This is going to be hard to deliver in the time remaining but I will do my best by perversely beginning with some observations apparently removed from South Africa and in particular what will in historical hindsight prove to be the paradox of our times. This is that conditions over the past 30 years have been unimaginably favourable to capitalism, yet we have witnessed the worst times and recession since the 1930's with no prospect of recovery in sign and this comes on top of slow growth relative to the post-war boom.

Why do I say that conditions have been so favourable: there has been an extraordinary set of potentially productivity-increasing innovations and new technologies; the global labour supply has expanded enormously; there has been the triumph of neoliberalism and the new world order; and a weakening of trade union and programme movements, not least with the passing liberation struggles attached to decolonisation.

So why then has there been the slow growth and crisis?

Here I find the answer in ''financialisation''. This has a dozen or so definitions variously tying causes to consequences but I want to focus first on the extraordinary expansion of financial assets in overall volume, variety and for speculative purposes, rather than real investments, together with speculation of such finance across more and more areas of economic and social life. One index suffices to summarise this : that the ratio of global financial assets to global GDP has risen threefold over the last 30 years. Why do we need three times as many assets for a unit of output? If this had happened with any other input, we would see it as the most appalling process of technological decay – three times as much wood, energy, glue or nails, or whatever to make a chair for example.

Second this has meant overall levels of real investment have been low, and ineffective and volatile, and pursuit of short-run profitability through financial markets has taken precedence over long-run pursuit of productivity gains.

Third has been an extraordinary growth in inequality as a result of financialisation and its rapidly inflated rewards. In the USA, the figures are simply starting, with real wage levels of ordinary working people having stagnated, whilst the share of income of the highest 1 per cent has risen over the past 30 years from well under 10 per cent to well over 20 per cent, reversing the fifty year earlier trend in the opposite direction.

Now in a remarkable paper, Gabrial Palma has described this process of robbing the poor to pay the rich as the art of neoliberalism. It has managed to do this despite democracy. Remember this is what democracy means in the neoliberal age. But he reveals an even harder democratic pill to swallow: that in LA, the art of democracy takes an unusually extreme form in that the rich have uniquely managed to squeeze the distributional shares not only of the bottom 40 per cent but also of intermediate layers as well. I say unique across select LA economies with Brazil to the fore but of course South Africa is also highlighted as an exception by Palma as well. Redistribution has not only been highly regressive, with the elite ruling at the expense of the desperately poor but this has been achieved with limited co-option of middle layers in terms of redistribution of rewards. This is the context against which to view two fundamentally flawed tales often told in South Africa.

The first is that there is an extremely generous social security system that creates a benefit culture of rewards to the undeserving. But these serve at most as a palliative against extreme levels of inequality and deprivation. The other is that those who occupy a position slightly above the 40 per cent at the bottom are not doing so badly comparatively and they should sacrifice to benefit those below.

If without much by way of comment and explanation the New Growth Path at least recognises that the share of profits in South Africa has increased from an extraordinary level of 40 per cent to an even higher level of 45 per cent from 1994 to 2009.

I am acutely aware though that a focus on such redistribution alone is far from adequate. How does this redistribution come about and how does it relate to much broader economic and social transformation and corresponding casual factors. Here I want to point to what are often overlooked South African realities. The first will come as no surprise to those who are familiar with the work of my colleague and myself. This is the central role played by the, minerals-energy complex, MEC, both historically and in current circumstances. Its interests and dynamic have informed the trajectory of the South African economy and policies both adopted or, more important, not adopted. The MEC has given rise to the highest levels of capital-intensity (at the expense of employment) to promote profitability through export of energy, intensive minerals and raw materials. This remains crucial against which everything else is a set of sideshow even if of huge significance on its own account.

Second then is to point to the particular form taken in South Africa by the already mentioned processes of financialisation, especially in a global context. South Africans conglomerates over the past twenty years have been paying post-apartheid catch up not with latecomer modernisation and development but with financialisation.

And they have done so with all the common sins whilst adding a few of their own:

1) The South African financial sector has been the fastest growing in the economy. It is now 20 per cent of GDP. Not only are financial services the last thing that impoverished South Africans need, they have not been getting them anyway – 40 per cent of South Africans benefit from no financial services at all.
2) If the role of finance is to mobilise and allocate resources, South Africa has failed miserably. The level of investment in the South Africa economy has been at historically low levels; scarcely exceeding 15 per cent of GDP over half of what is necessary.

3) A major reason for this has been illegal capital flight at unprecedented levels in post-apartheid South Africa peaking at 23 per cent of GDP in 2007. This has neither been rectified remedied nor even addressed by Treasury or the South African Reserve Bank.
4) This puts a very different perspective on macro policy in the following ways:
    a. An overvalued exchange rate is highly advantageous to those taking capital out of the country.
    b. High interest rates provide short-run capital inflows to allow for long-term outflows.
    c. Creeping abolition of capital controls to render legal what has been done illegally puts the economy on the verge of instability.
5) Further, even with the limited investment involved in South Africa, there has been more concern to create and redistribute ‘’shareholder’’ value through restructuring for domestic monopolies with capitalisation and SR financial gains at the expense of long-run productivity, industrial development and promotion of employment.
6) In summary, even to contemplate alternative policies and to obtain the resources to deliver them, it will be essential to get beyond the MEC and financialisation and the art of neoliberal democracy that goes with them.

But how and why has this situation come about. Again there is a huge paradox. The overthrow of apartheid might be described as the last great throw of the classic revolutionary dice, drawing on the following elements – democratisation, anti-racism, international solidarity, a powerful trade union movement, in alliance with the Communist Party and a popular political party, the ANC, as well as ta mass democratic movement for change.

Looking back now with almost two decades of hindsight, what needs to be explained is not just aspirations having been thwarted, as is recognised and accepted in the shift from GEAR through AsgiSA to the Second Transition. But how could this have been achieved so quickly. I ask you to consider whether policies being adopted today from road tolls to secrecy bills could have been seriously considered twenty years ago as GEAR was being adopted as opposed to being actively pursued as it now goes into reverse. Such is the South African art of neoliberal democracy. In short, current policies in some respect only look more promising because of change of how much change had already taken place in the opposite direction as South Africa went through the transition from apartheid.

To address this paradox, I want to return to Harold. I knew him sufficiently well that each conversation that I held with him remains sharp in my memory – from his lecture on the virtues of this new software, called Word which, as opposed to WordPerfect, would allow as many as two files to be opened, incredibly, at the same time – through his evasion of discussing the cheap labour power theory for which he was deservedly renowned but I suspect less inclined to defend as to move to his dedication to education policy research.

My last conversation with him in Cape Town found him both agitated and excited. He was attempting to understand what was going on both from the reception of his own work and its location within the broader process of transformation.

In a tone bordering on conspiratorial, fear, blasphemy, he was raising doubts about whether Colonialism of a Special Type, CST, and the National Democratic Revolution, NDR as part of a two-stage transition to socialism were still appropriate for comprehending and strategizing for South Africa. As someone not long versed in the language of South African resistance this was of no great significance to me. But in retrospect, I now realise Harold was on to something much sooner than the rest of us even if we have eventually begun to get there.

For those of us disappointed in the neoliberal turn from RDP to GEAR this was predominantly seen in terms of undue compromise with the old Afrikaner / white order and international capital. Things look very different now because what was undoubtedly a lack of compromise on the basis of the existing balance of forces has also witnessed the emergence of a new black bourgeoisie that fits neatly into the art of South African neoliberal democracy. Harold already seemed aware that the emerging black elite was the exact antithesis of an agent committed to progressive developmental change. Putting words into his mouth he was fearful that CST and NDR were inappropriate for understanding the nature of the new political order.

In retrospect, we can now see that it is not so much its pursuit of self-interest that is at fault as the circumstances and ways in which it has been pursued. Through financialisation with the corporate sector and the patronage of the state.

No less than for capitalism more generally, such paradoxes stand in sharp contrast to what could be achieved given the vast resources that are haemorrhaging from the South African economy, the wealth of technologies and labour with which they could be deployed and the huge backlog of employment and of basic needs that continues to wait to be met.

Let me conclude in a much broader vein. The observations I have made today, suitable transformed to fit with the then realities were commonplace within South African radical scholarship in the past, as the economic, political and ideological imperatives of capital that evolved under the apartheid regime around the MEC were addressed. Another element in the South African context of neoliberalism has been to undermine and marginalise such scholarship.

Let me remind you where neoliberalism takes us in response to the crises in the stances of the IMF. It confesses to have failed to recognise that there is more to macroeconomic policy than monetary policy, more to monetary policy than fixing the interest rate and targeting inflation and more to finance than monetary policy given financial markets may not work effectively and that banks can go bust.

Well done alongside the acknowledgement that there might be a case for capital controls. Thanks but too little too late. And, in practice, scholarly shifts are more designed to constrain thinking from being more radical and interventionist whilst the interests of private capital in general and finance in particular continue to be pursued remarkably at the cost of unemployment and cuts in economic and social wages. In short, not least in South Africa itself, policy dialogue has been and continues to be a huge smokescreen concealing both economic and political realities and pre-empting arguments and discussion of alternatives, even where appropriate policies do emerge as with industrial policy which has begun to be tabled and the same applies to a national health service.

Even such policy dialogue remains compromised as is evident by the co-existence and content of both New Growth Path and National Development Plan and even more compromised in practice for lack of resources and political commitment to deliver.

In short if we wish to engage in more progressive policies with more successful outcomes, we need to go beyond the position of finance and the resources that it both commands and wastes. Otherwise the prospect is one of decolonisation and NDR of a special type, globalised financialisation. Even if finance is successfully challenged and defeated, finance will itself have to be put to new uses in different ways – not just sequentially, get finance in order, then we can think about other things, but at one and the same time.

For the public sector should provide social and economic infrastructural provision for all in an environmentally sustainable industrial policy that shifts from energy-intensive capital-intensive export of unprocessed minerals to a strategy to diversify from existing MEC core sectors into labour intensive employment of consumer goods to meet basic needs for everyone and provide for secure, stable employment.

This is not rocket science but unfortunately nor is it mainstream economic science given the latter's unique combination of lack of realism and self-pessimism. And nor should it be beyond the reach and imagination of the social forces and coalitions that themselves impossibly brought down the apartheid regime.

I wish Harold were here to reflect critically on all those issues. If he were, I am certain of two things: first he would be surrounded by scholars and students to whose education he devoted all of his academic career and last years. And, second, in contrast to many who have benefited from his endeavours, his principles and goals would have taken precedence over his own self-promotion and advancement.

Thank you.