Notes on the South African economic crisis

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The SA economy is linked to the global economy basically through exports and imports. The difference in value between exports and imports is called the balance of trade. When transfers of money (foreign investment, payment of dividends overseas etc) are added in then the difference is called the balance of payments. The balance of payments is like the umbilical cord linking a small economy to the giants of the world economy. Even before the explosion of the global economic crisis, the SA balance of payments was in crisis. Since 2004 the deficit on the balance of payments has steadily increased. In 2007 it rose to some 7% of GDP, and in the first half of 2008 to an unsustainable 8,1% of GDP. In January this year it was worse (R17,4 billion). Basically, SA is importing much more than it is exporting.

This chronic deficit prevents the SA economy from growing faster, and the situation will be made much worse by the global crisis.

Why is there this chronic deficit? Up to the 1970s things were more or less OK. SA capitalism had been pursuing a Latin-American style inward industrialisation strategy Ð of tariff-protected import substitution, strongly state-supported. This produced strong economic and employment growth in labour-intensive consumer goods industries. The import of machinery was paid for by the export of gold, diamonds and agricultural products produced by cheap black labour secured through the policies of segregation and apartheid.

But by the early 1970s the import-substitution strategy had become exhausted, essentially because of the limits of the racially-structured market and the prevalence of cheap black labour and crisis began to develop in the economy — intensified by the slowdown of the world economy from the 1970s. It was a crisis of overproduction, of an inability to sell goods that could be produced. It was rooted in the inability of a cheap-labour-based apartheid economy to provide a market for expanded manufactured goods. South Africa could produce shirts and foodstuffs, even at a pinch motor cars, but producing fridges, so-called “white goods” was more difficult, and it was not possible for SA to produce commercial aircraft or capital goods (factory machinery etc) because of problems of so-called “economies of scale”. The crisis therefore expressed itself as a chronic deficit in the balance of payments. Earnings from manufactured exports were needed to fill out the earnings from mineral and agricultural exports to pay for the needed imports of capital goods. The failure to achieve this led to a fall-off of new foreign investment, worsening the balance of payments crisis. A vicious cycle developed, barely eased by spasmodic increases in the gold price, such as in 1980Ð81.

SA economic growth, which had averaged 6% a year in the 1960s, slowed to 1,5-2% a year for the 1970s and 1980s, and fell by an average of 1.1% a year in the early 1990s. Fixed investment and plant capacity utilisation fell. Unemployment rose Ð from about 12% in 1970 to 20% in the early 1990s. The worst period until now was from 1985 to the early 1990s. There was negative per capita growth; a decline in the rate of productive investment; and an absolute decline in the value of capital stock, especially in manufacturing. Rather than reinvestment in production, capital fled to various speculative financial markets.

Since the ANC government came in, there has been positive economic growth averaging 3% a year from 1994 to 2000 and picking up to 5% a year between 2005 and 2007. But the ANC government has not overcome the roots of the economic crisis. Growth has largely been based on the artificial circumstances in the world economy, the build-up of consumer debt in SA, and, more recently, on infrastructure spending associated with the 2010 world cup. The consequence of the increase in growth to 5% a year, however, has been the revival of an unprecedented deficit in the current account of the balance of payments.

The ANC government's growth strategy centred on invigorating an export-oriented manufacturing sector. However the expansion of all exports (not just manufacturing) has been meager since 1994. They have grown but not at anything like the pace needed to address the crisis of the economy. The sectoral distribution is still weighted heavily towards raw and semi-processed mineral products gold diamonds, platinum, coal, iron and steel, aluminium. In fact manufacturing has steadily diminished under the post-1994 government from 21,2% GDP in 1994 to 16% in the first quarter of 2008. Labour-intensive sectors such as food, beverages, clothing and textiles have been the worst hit.

Under the ANC government, inequality has worsened. The rich have got richer and many of the poor have got poorer. This is despite the decrease in absolute levels of poverty in the 2000s due to the expansion of social grants to at present reach some 12-13 million people. Figures released by Statistics SA in 2007 suggest that the poorest households still had a worse position in 2005/6 than in 1995. The average income of the poorest one-fifth (20%) declined by about 19% between 1995 and 2000, and then increased by about 9% to 2005/6, but this did not take them back to 1995 levels. UNISA's Bureau of Market Research claims that income disparities have widened in the last two years. It estimates that 33,3 million South Africans (more than 70% of the population) earn less than R12, 200 a year (about R1000 a month). Meanwhile 2,2% of South Africans earn more than R194,701 a year (about R16,000 a month).

The inequalities increased, moreover, because the rich have got so much richer. In 1994 company CEO's earned, on average, 6 times the wages of workers. By 2004 this had increased to 50 times, and since then CEOÕs earnings have increased dramatically. In 2002 few received more than 1 million a year, but in 2005 they averaged 12 million a year. Steve Ross of Edgars got R112,4 million; Sean Summers of Pick and Pay got R65 million and Whitey Basson of Shoprite R58,1 million. And the super rich are no lnger all white. Patrice Motsepe came second on the list with R9,6 billion to Nicky Oppenheimer in third place with R6,85 billion.

The situation is most serious of course as regards joblessness. In 1994 the unemployment rate was 20% of the economically active population. This increased to 31,2% in March 2003, since when it has fallen Ð according to latest figures (September 2007) to 23,1% or nearly 4 million— still more than in 1994. It one takes the expanded definition of unemployment, which includes those without work who are discouraged and have given up looking for a job, the rate rises to the high 30%s Ð more than one third of the economically active population Ð some 6-7 million people. In addition, many who are counted as "employed" should not be so counted beggars at robots, for example, or people selling three oranges at the side of the road.

All this was already taking place before recession hit the world economy. Now matters will worsen. In the 3rd quarter growth was a mere 0,2% and in the fourth quarter it was negative — -1,8%, the biggest fall since 1992. [BD, 25/3/09] Manufacturing output shrank by 6,9% in the 3rd quarter, its steepest fall in 17 years Ð and then by an astonishing 22% in the fourth quarter, and a further 11% in January. [BD 13/3/09] Some estimates say the economy will shrink by 1,5% in the 1st quarter. A recession (two quarters of negative growth) is certain, and negative growth is likely to continue at least through the year. [B Report, 25/2/09] Andre Roux of Investec Asset Management predicts a 2% contraction this year Ð and the global recession lasting some three years.[B Report 6/3/09]

70,000 jobs were lost in the third quarter of 2008. In the fourth quarter manufacturing lost 20,000 jobs and mining lost 11,000. There was a 67% reduction in average work hours per factory worker (the worst figure since 1970) [BD, 25/3/09]

It is only the beginning. The mining bosses say they may have to cut 20-50,000 jobs during the year. [BD 13/3/09] Standard Bank says job losses of 400,000 are likely during 2009. [B Report, 25/3/09] Othere say half a million jobs will be lost. [S Independet, 22/3/09] Even the Western Cape finance MEC, Garth Strachan, predicts a “severe” outlook, with most sectors facing downturn, especially manufacturing, predicted to fall by 2,1% in 2009, and ÒmassiveÓ job losses. Already by February 10-15 Western Cape companies in clothing and textiles and engineering had closed down.

The Bureau of Economic Research says manufacturing is “showing signs of severe distress” because of unprecedented declines in domestic and foreign demand. The production indicator had “now surpassed any previous lows on record.” [B Report, 23/3/09]

In January this year exports plunged by 25% (while imports increased by 6,9%). Car exports fell 58%, electrical equipment 36% and precious metals 32%. The world prices of so-called “commodities”, coal, primary metals and so on, which are SA’s main exports (60%) are expected to drop further as demand weakens in the world recession, worsening the situation. A Standard Chartered economist said “All the signs are that there is even worse news yet to come.” [BD 2/3/09] [BD 5/3/09] [B Report 5/3/09]

New motor sales plunged by 36% in January, and production by 50%. Exports of cars fell by 27,5%, and motor manufacturers expected this to continue until at least 2010 or 2011. [BD 4/3/09]. Anticipated new car sales in 2009 are less thanhalf the peak of 2006. Apparently 150 franchised dealers and 200 independent dealers out of about 1400 have closed in the past 14 months, causing the loss of 9500 jobs. [Stimes, 22/3/09] Another 9500 people have been fired in the car assembly sector and 8000 in the component sector. [BD 23/3/09] NUMSA claims that 36,000 jobs had been lost in the sector. [B Report, 23/3/09] The CEO of the National Association of Auto Manufacturers said the downturn was “probably the worst in the history” of the SA motor industry. The DTI says another 34,000 jobs could be lost among vehicle manufacturers, dealerships and components and parts producers. [BD, 9/3/09] The car bosses want to increase vehicle prices by up to 40%! [BD, 16/3/09]

Despite government spending on infrastructure, the building industry is also in decline. Building plans passed in 2008 were 40% down on the previous year. [BD 20/3/09]

Volumes at the Durban container port dropped 15,6% from December to February Ð or, adjusted, by about 29% according to the chief operating officer. Economist Mike Schussler said he had “never seen figures like that from Transnet”. [BD23/3/09]

ABSA says the number of houses sold as the result of bond arrears had increased by 52% from a year ago, and repossession of vehicles by 35%. It is predicted that this will get worse during the year.

The DTI reports it has been inundated with requests from industries for government money. [BD 16/3/09]

ESKOM is about to submit another request for increased tariffs [BD 17/3/09]

Tourism has already been hit, German tourists fell off by 30% in the first two months of 2009.

Retail sales fell for the last eight months of 2008, but had a surprising 1,7% annual increase in January, undoubtedly merely a blip. [BD, 19/3/09]

NGOs and charities will be hit by the recession. The executive director of Child Welfare SA, with monthly operational costs of R1,5 million envisages it will have to cut or stop services to more than 2 million children and their families if they do not get funds soon. It has raised only one quarter of its target. [Argus, 21/3/09]

Olivier Besancenot leader of new anti-capitalist party in France says “If bosses refuse to share the right to property, if they oppose worker control, we demand their expropriation and worker self-management of their companies.” [Quoted by Terry Bell, B Report, 20/3/09]

P.S.

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