Two years later

This month two years ago, in August 2013, I published a book "The Long View" describing some of the social and economic trends shaping the country. Several clients have asked me what I would write differently if I were to write it now.

Less growth

The biggest single change is the decline in economic growth. In the Long View I hung my hat on a "muddle through" growth rate of 3%. Labour unrest, electricity constraints and recently the collapse of commodity prices have cut that number to 2% and less.

In 2014 a five-month platinum strike, followed by a one-month strike in the steel and engineering industry, knocked economic growth down to 1.4%. (It is worth noting that strikes did not knock the economy into a recession, which the global financial crisis did "achieve" in 2009). For 2015 we started the year with consensus forecasts of 2%. At this stage the consensus is shifting to lower numbers in the 1.5% to 2% range.

Population growth

Population growth in 2015 was estimated by Stats SA as 1.65% - a bit higher than the 1.3% I used in 2013. Fertility (number of children per female) is still declining, but life expectancy is improving; mortality numbers have declined; and more immigrants are assumed to have moved into SA. The "natural rate of increase" (i.e. births and deaths) is 1.3%, immigration then pushes the number to 1.65%.

Per capita incomes

Combining the growth in the economy and the growth in the number of people determines per capita incomes – the ultimate measurement of whether we are progressing economically. The average increase in per capita income for the last 68 years was 1.2% per year. Since the 2009 recession it has increased by an average of 1.4% a year. So far so good, but in 2014 it collapsed to a barely registered 0.1% for the year – call it zero.

With an expected growth rate of 1.5% to 2%, 2015 will again be a year in which per capita incomes will increase very slowly, certainly much less than the 68 year average.

In economics, as in business, everything happens on the margin – 1% more growth looks insignificant, but it makes the difference between an increase in per capita incomes close to the 68 year average or missing it by a mile.

The forces holding SA back

In "The Long View" I listed two obstacles to SA's progress: inequality and (a lack of) social capital. It is interesting to note how much more pronounced these two forces have become over the last two years.

Social capital

The critical elements of social capital are networks and relationships. These generate trust, common values, reciprocity and participation. From these characteristics flow very real and concrete advantages.

However, listen to business leaders talking and politicians making speeches and the elements of social capital listed above are nowhere to be seen or heard. On the contrary, words like "trust deficit", "suspicion", "antagonism" and so on prevail. These speak to the lack of social capital between two of the most important sectors in South Africa.

The same deplorable lack of social capital can be seen in the relationship between employers and trade unions.

It was Derek Keys who, as Minister of Finance, spoke about and put into practice the idea of the Golden Triangle: getting government, business and trade unions to work together. He created a network and set of relationships that enabled him to raise VAT from 10% to 14% - an astonishing increase in one budget. Keys enjoyed, generated, built huge social capital – and it had a very tangible and concrete impact.

SA was not near this space in 2013 and it is certainly not any nearer now. The lack of economic growth is amplifying this issue. What was tolerable when per capita income increased by 1.4% is less tolerable when incomes increase by close to zero.

Inequality

Inequality too was bad in 2013, and has not improved since then. What has changed is that the issue is getting much more air time now than it did then.

Again, the decline in economic growth makes this problem worse. Retrenchments spread poverty; slow growth retards job creation and that all contributes to more inequality.

To what extent can the platinum workers striking for five months and the steel and engineering workers for a month in 2014 be linked to inequality? I do not have empirical evidence, like an opinion survey amongst striking workers, but for my penny's worth I would speculate that inequality (and poverty) played a role in those strikes. Workers are under pressure, they want a bigger slice of the cake and they are prepared to sacrifice income for that.

If this speculation is correct, then the strike action is nothing else but a labour market manifestation of the inequality society is suffering from. Inequality is also manifesting in other ways. The EFF's rise can be linked to inequality; the tensions between farmers and the government can be linked to the inequality of land ownership; the dispute over empowerment plans in the mining industry to inequality in ownership and so on.

A wise friend and retired businessman counselled a few years ago that if we could be half as good at inclusion as we were with exclusion, the country would do well. Inequality suggests that we have not succeeded yet.

Open society dynamics

The one trend that has been confirmed abundantly since 2013 is the much more open society that SA has become. There is the ferreting out by journalists, court challenges, the work of the competition authorities, the decisions of regulators … the result is more and more contestation. In the process new rules are being written and new practices developed, opening the way to society learning new rules of behaviour and unlearning old ones. It is a tedious and a slow process, but it is happening and is a healthy development.

So What … is to be done?

- Slower economic growth is the single most important change since 2013. In 2013 3% was a realistic target, we now look at 1.5% to 2% - not enough to lift per capita incomes decisively.
- Lower growth is likely to endure as long as electricity is a constraint and it will remain a constraint at least until 2018, perhaps until 2020.
- Whether it is 2% or 3%, SA is in a slow-growth trap, something I pointed out in this newsletter in February 2014 when I came back from a four-month stint in the US.
- Getting out of the slow growth trap would require a co-ordinated effort, not just from government but also from labour and business. Call it Derek Keys's Golden Triangle, social capital, a common effort ….
- SA is an open society where new voices and energy flourish, some of whom has begun to call for such co-ordination. Let's see if it comes about.