Saving the economy a taxing issue for ANC

A perceived racialisation of revenue collection may provoke ‘tax strike’, writes Anthony Butler

A road map for SA to get out of rut

by Ben Turok, December 15 2015, 05:55

Joseph Stiglitz. Picture: SUNDAY TIMES

Related articles

Investors ignored Zuma until he set off Treasury tripwire
ON THE MONEY: Zuma fallout to hurt on a wide scale
Zuma's economy-wrecking legacy

BEN Turok: "Prudence" is the favourite word of our National Treasury, and we've been pursuing it for 20 years, through Gear (Growth, Employment, and Redistribution) and other austerity policies. Now the economy is at zero growth. Change is needed, and we don't know what. Would you be willing to say anything about SA's trajectory?

Joseph Stiglitz: I can say a couple of things. First, in 1994, there was a concern about establishing credibility in the financial market for the new government, a challenge that very few governments have had to face. I think they succeeded in doing that.

Gear was intended to do both that and promote economic growth. I think we can say, 20 years later, it succeeded in the first, but it failed in promoting growth. The numbers say that. It's a fact.

BT: It's conceded.

JS: Would I have done something different? I would have taken a more proactive policy of promoting employment, promoting inclusion.

When I see unemployed labour and huge needs in housing and infrastructure, I get deeply upset. It's a market failure; something is deeply, deeply flawed in the economic system. Just like in the US, where we've had homeless people and empty homes.

We all have to recognise that: at the global level, the economy is not working. Going from there to the question of "what do we do?" is a big step. But if you don't first recognise that the system is not working, you're not going to make that step.

I have some things that I would have liked to try. I would have been a little more aggressive in exchange rate policy, keeping the exchange rate more competitive.

The industrial sector, export sector, could have grown a bit more robustly. I would have been more aggressive in competition policy, breaking up the oligopolies that were created under the apartheid regime. I would have recognised there was a legacy of a noncompetitive economy and asked how we would deal with this legacy.

BT: Would you do it the same now, given that we are in big trouble?

JS: Yes, I think I would. Last year, when I was here, I talked about trying to create a more competitive real exchange rate. You know, all the natural resource-based economies are now regretting that they didn't use the opportunity of the resource boom to reinvest in their economy. One of the consequences of that was higher exchange rates.

BT: Would you have taxed the mines more?

JS: Very much so.

BT: But they object!

JS: Of course they're going to object. But you have some very difficult problems, because you have some very high-cost gold mines, so you can't be insensitive to the cost of production.

BT: SA has high debt and the repayments are now very high. And yet, we need to boost the economy; we are stagnant in mining, industry and agriculture. What determines the choice that you make between reducing debt because repayments are high and/or stimulating the economy?

JS: What is your debt-to-growth-domestic-product (GDP) ratio now?

BT: About 45%.

JS: But that's not high. At the end of the Second World War, which was the period of our fastest growth, the US had about 100%-120% (debt-to-GDP), and the UK had 240%.

BT: And Japan now has more than 200%. The problem is that the interest rate in SA is 5%, while Europe and the US is zero.

JS: You could try to engineer a monetary policy that sets interest rates lower. The naive view that that would be inflationary is, I think, wrong. What causes inflationary pressure is the pace of creation of credit, not just the interest rate.

There was this naive view that the only instrument you should use is the interest rate. That's been totally discredited. A monetary authority has a range of instruments. It may be that you have to impose capital controls.

BT: We need inflows because of our balance of payments.

JS: Then it may entail the use of other instruments. In the US, Warren Buffett — hardly left-wing — has proposed that whenever you export something, you get a chit; you want to import something, you have to use a chit. Balance of trade.

There is another set of ideas, which I have pushed very strongly for, called the "balanced budget multiplier": if you increase taxes on natural resources and increase spending continuously, it actually stimulates the economy, creates jobs, and improves the balance sheet of the country.

BT: Can we talk about SA's integration into the world economy? We are now told that we are very deeply integrated, partly because the mining firms are now listed offshore, in London. Is there nothing we can do as a country in the national interest?

JS: A country's natural resources always belong to the people. Some foreign company may have management responsibility, but you always view that as a fiduciary responsibility. If they don't exercise that responsibility in an appropriate way, they should lose it.

BT: You are very bold!

JS: I should say, just to be a little less bold, there has to be a legal framework with which one does that. But the legal and regulatory framework should be such as to ensure that whoever is the owner is pursuing the national interest. Problems have been created in some bilateral investment treaties, which is why SA tore those treaties up.

They have to be rethought. They're oppressive: they represent the interests of the corporate world against the ordinary citizens.

BT: Our producers suffer enormously from cheap imports, not only from China. The US wants to export cheap chickens. Our minister of trade and industry says, "If we can't produce chickens, what can we produce?" People say that import-substitution industrialisation has run its limit, that protectionism is not possible in the new order. What is your view?

JS: A central aspect of US trade policy is not based on free trade: it's "managed" trade. And it's managed for our corporate interests. We make sure that other countries don't dump their goods on us — while we're sure that we have the right to dump our goods on other countries.

It’s an antisymmetric policy. What maximises profits for US companies is what we care about. It’s a producer-oriented trade policy. We don’t care about our consumers, only about the campaign contributions, to put it bluntly.

So in the case of chickens, you should also worry about sanitary conditions, because our chickens are not produced under good conditions. There are "organic" chickens that are not safe to eat.

BT: Nontariff barriers?

JS: I wouldn’t call them "nontariff barriers"; I’d call them "ensuring the health and safety of your citizens". That should be the first priority of all policy.

There’s a whole set of subsidies that go into so many of our industries. We believe in protectionism of a kind, according to our rules. The bottom line is not the rhetoric of principle: it’s the reality of power. I

’m not sure the US even grasps how hypocritical it is about its free trade rhetoric and subsidies.

The view of import-substitution industrialisation is, I think, wrong. There have been failures because of excessive protection, but at the same time, many successful countries used those strategies.

The challenge facing Africa is that manufacturing employment will be going down around the world, and there will be an intense competition for those scarce jobs. It will not be possible for all countries to use an export-oriented growth strategy like East Asia did.

BT: You can turn to internal markets as a substitute.

JS: Large countries clearly can, and will have to. That’s not going to be possible for SA. That’s where SA’s policies to promote African integration and integration with other emerging markets become important.

• *Turok is director and editor of New Agenda, South African Journal of Social and Economic Policy. This is an edited extract of an interview that will be published in its next edition*

More in this section

LIQUID INVESTMENTS: Global tasting puts shiraz back in favourable light
HALF ART: Pharaohs’ race classes still dog popular culture
LETTER: Getting a point across
Saving the economy a taxing issue for ANC
SA on a knife edge in fiery mix of risk and recession
THICK END OF THE WEDGE: How Ethiopia didn’t invent the wheel

Top Stories

Ethiopia quietly dispels Africa myths
Lindiwe Mazibuko chose to leave the DA, says Maimane
Reality bites for growing number of poor whites
THICK END OF THE WEDGE: Oops! Zuma, on slope, slips in snow
Russia’s nuclear poison may yet infect the marrow of SA
Kumba to slash jobs as changes fail to take off

View more

The Third Umpire

Craig Joubert
Gengezi Mgidlana
Jacob Zuma

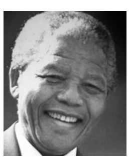
South African referee Craig Joubert, whose controversial decision to award a penalty to Australia in the dying seconds of their World Cup quarterfinal denied Scotland an historic win. Who would be a rugby referee these days?

Our Vote
Out
Cast your vote
In
Out

Best multimedia

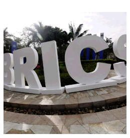
VIDEO: Rising levels of violence in politics an 'urgent concern'

Nelson Mandela 1918-2013



News and views on the death, and life, of former president Nelson Mandela, with tributes and photographs from around the world

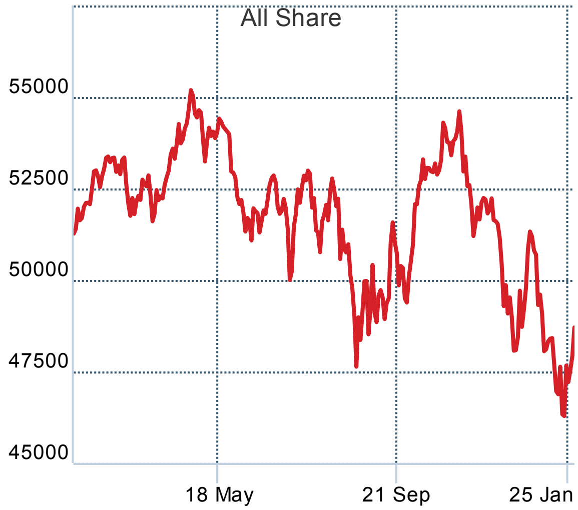
In depth: Brics



News, views, analysis and multimedia coverage of the Brics nations: Brazil, Russia, India, China and South Africa

Local International Currencies Commodities

Zoom: 1m 3m 6m 1y 3y



All Share	17:00	49,141.94	+0.90%
Top 40	17:00	44,065.55	+0.73%
Financial 15	17:00	14,710.08	+2.97%
Industrial 25	17:00	69,837.80	+0.96%
Resource 10	17:00	24,249.34	-1.95%

Prices at least 15 minutes delayed. Source: JSE Ltd.

Powered by PROFILE DATA

Share search

Company Lookup

Go

Type in a share code or part of a company's name in the Company Lookup box, then select the company name from the list of results and click Go to view its tearsheet with share data, news and more.

Most Read
Editor's Picks
Ethiopia quietly dispels Africa myths
Lindiwe Mazibuko chose to leave the DA, says Maimane
Reality bites for growing number of poor whites
THICK END OF THE WEDGE: Oops! Zuma, on slope, slips in snow
Russia's nuclear poison may yet infect the marrow of SA
Home
National
World
Opinion & Analysis
Markets
Economy
Business
Companies
Personal Finance
Life
Sport
Wanted Magazine
About Us
Staff Profiles
FAQs

Contact Us
Advertise With Us
Mobile Site
Register
Press Code
Times Media Group B-BBEE
Privacy Policy
Terms & Conditions

Business Sites

Business Times
Financial Mail
BDTV

Network Sites

Times LIVE
Sowetan LIVE
Financial Mail
Sunday World
Books LIVE
Rand Daily Mail

Tools & Services

Calculators
Multimedia

News Updates

RSS
Twitter
Facebook
Google+

All Share : 49141.94
Change: 0.90%
Top 40 : 44065.55
Change: 0.73%