OVERCOMING THE LEGACY OF ECONOMIC EXCLUSION

The main challenge for South Africa in its first 20 years of democracy was to dismantle the vicious legacy of apartheid. In 1994, the majority of black households lived in poverty. Access to basic services in townships was inadequate, and even more so in the former homelands.

By Trudi Makhaya

These were the outcomes of centuries of dispossession and, more recently, apartheid. In this economic regime, black people were excluded from meaningful participation in the economy; relegated to serve as low-skilled labour. Investments in human capital were deliberately curtailed, with Verwoerd articulating this in his famous pronouncements on the education of black people, whom he deemed unworthy of technical and advanced education.

The past 20 years has seen a succession of policies that sought to develop a new kind of economy, in line with constitutional democracy and its commitment to develop the capabilities of all citizens, irrespective of race or gender. The first policy framework, the Reconstruction and Development Programme, was soon overshadowed by the Growth, Employment and Redistribution policy (GEAR). By 2006, another policy framework, Asgi-SA was put forward, to be followed by the National Growth Plan in 2010. An overarching plan, the National Development Plan, which includes a series of reforms and policy proposals on economic growth and socio-economic development, was introduced in 2012.

Debates have raged over the policy stance of the democratic government, with those on the left arguing that the new government had fallen into the throes of a neo-liberal agenda driven by the demands of international capital, whilst those on the right have criticised the same government for not implementing the investor-friendly reforms that are deemed to be growth-enhancing. In its attempts to balance the competing needs of various segments of society, including reversing the legacy of apartheid, post-1994 governments have attempted to pursue a fairly centrist policy package that attracts criticism from all sides.

Progress has been made. According to StatsSA, the percentage of the population living below a poverty line of R620 a month per person stood at 46% in 2011, down from 57% in 2006. Measures of the depth of poverty also show that on average poor households are not too far down from the poverty line, suggesting that it would be easier to cross it. The government's Twenty Year Review highlights many other achievements of the past 20 years. After inheriting poor government finances and high inflation, macroeconomic stability has been achieved. An inclusive social safety net catering to the whole population has been put in place.

However, one of the most damaging features of the economy, its concentrated and exclusionary nature, remains a challenge. The work of the competition authorities is testament to this. The post-apartheid competition authorities were created to implement measures to ensure that the economic playing field is level; that competition is fair and efficient. The Competition Commission, the investigating body, is empowered to investigate instances of behaviour by firms that offend competition law, and to impose appropriate penalties and remedies. In line with international practice, the Commission also reviews mergers between businesses to ensure that they do not lead to a substantial lessening of competition. The Commission refers cases to the Competition Tribunal, which is the adjudicative body. Its rulings can be challenged at the Competition Appeal Court.

Over the past 15 years of their existence, the authorities have uncovered and penalised numerous cartels, notably in the bread and construction sectors. Cartels, engaged in practices such as price-fixing, market allocation and bid-rigging, increase the cost of doing business for firms that rely on their inputs and also raise household expenditure.

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The competition authorities have also challenged practices that are outlawed because they entail the abuse of a dominant position within a market, such as excessive pricing, discriminatory pricing, exclusionary practices and others as outlined in the legislation. Relatively few abuse of dominance cases have been prosecuted to date. These cases are difficult to investigate and the legal tests that have to be met to establish an offence are quite rigorous.

Three of the cases that have been prosecuted illustrate the harm that the practices of dominant firms can cause to the ability of new or small firms to thrive in the economy. Significant fines have been levied on South African Airways (2005), Telkom (2012 and 2013) and most recently, Sasol (June 2014). In the first case, the state-owned dominant airline was found to have induced travel agents to sell its tickets to the detriment of competitors' sales. Thus competing airlines were cut off from an important sales channel (travel agents were main influencers of travellers' decisions at the time) and consumers denied choice. In this case, the victims were not only air travellers, but also small rival airlines such as Nationwide and Comair, which were trying to compete in aviation.

A competitive and dynamic telecommunications sector is crucial to economic growth. Yet the emergence of managed network service providers and internet service providers in the early 2000s was retarded by Telkom's practices when dealing with these new rivals. After a long-running case, Telkom eventually paid significant penalties but also agreed to a set of behavioural commitments that would ensure that it provides value-added service providers fair access to the core infrastructure that it owns. In other words, that such independent service providers would enjoy the same terms of access as Telkom's own value-added services subsidiaries. When telecommunications markets are opened up to competition, it is expected that the incumbent operator will sell access to this infrastructure to value-added service providers on fair terms. It would be inefficient for a new player to attempt to replicate Telkom's network in its entirety. Access to it enables the entrants to offer innovative services over that backbone. This did not happen in the early days of telecommunications liberalisation in South Africa. Once again, new businesses and end consumers suffered from high prices and lack of choice.

The decline of manufacturing in South Africa has led to job losses and falling exports. In the most recent fine levied against Sasol's subsidiary (Sasol Chemical Industries), which the company may still appeal, the Competition Tribunal found that it had charged excessive prices for chemical inputs into the manufacturing of plastic products. Based on the evidence before it, the Tribunal has argued that this practise meant that local manufacturers of plastics were unable to gain competitively priced inputs, which in turn meant that they could not compete against imports coming into the country from countries such as China. This, in spite of Sasol having achieved its dominance, in part, due to government subsidies and support during the apartheid era.

The cases cited above demonstrate the harms that arise in heavily concentrated sectors where market power goes unchecked. Though the competition authorities can steadily challenge anti-competitive behaviour, government policy as a whole will need to be brought to bear for the attainment of inclusive growth. The low rates of new business formation in the country also reflect deficits in education, access to skills and finance and regulatory measures that raise barriers to entry.

The next 20 years thus present policymakers and stakeholders with an important question: how to build an economy that is not based on exclusion but serves the majority of South Africans? Ideological debates about the role of the state and property rights are not helpful in this regard. It is clear that there is a role for the public sector in building capabilities in the economy to create the conditions for sustained development and growth. This is not about creating a government-dependent class or displacing the private sector from the economy, but about remedying historical deficits and building a base for future economic growth and development. These necessary interventions from the public sector will need to be evidence-based and to be executed in a clean, transparent and efficient manner.

The concerns and needs of the unemployed and of entrepreneurs need to come to the fore in the quest for an inclusive economy. These two social groups are intertwined, because data show us that it is new and small businesses that create new jobs. As discussed above, the practices of dominant corporates often frustrate the attempts of these businesses to enter markets and to expand within them. The policy environment as a whole also needs to be examined and reformed accordingly to support a broader base of entrepreneurial activity within the economy. The challenges that the unemployed face in accessing jobs, for example due to transport costs, poor internet access or lack of employment readiness, need to be tacked aggressively. The success of the next 20 years will be judged by the transformation of our society from a pyramid, with a small elite at the top and the masses at the base, into a diamond, with the majority of the population in the middle of the income scale. This will take concerted focus on expanding access to economic opportunities and upward mobility.

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