South Africa's long walk to economic freedom

African History through the lens of Economics

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2 March 2022

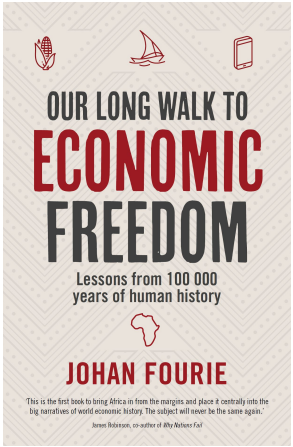


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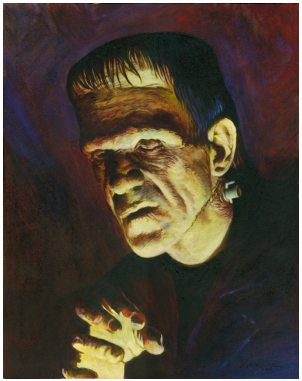
Our Long Walk to Economic Freedom

- Chapter 15: What do an Indonesian volcano, Frankenstein and Shaka Zulu have in common?
- Chapter 33: Will Madiba's Long Walk to Freedom ever end?



The creation of Frankenstein

- Lovers Mary Godwin and Percey Shelley travel to Geneva in 1816 for a holiday, but the weather is terrible.
- Godwin writes *Frankenstein*, the story about Victor Frankenstein who creates a monster in a scientific experiment.
- But not just in Europe: in Asia, America and Africa reports came in of bad weather.
  - In southern Africa, we use alternative sources: oral histories and tree rings.
  - Nguni: 'madlathule': let one eat what he can and say nothing
  - Garstang et al. (2014) studies tree rings and find evidence of severe drought.

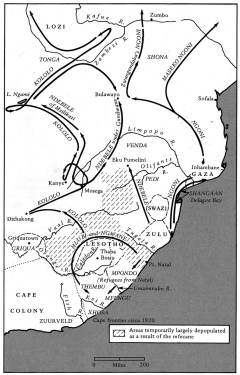


What had caused the bad weather of 1815/1816?



The Mfecane

- The Mfecane was a period chaos and suffering that resulted in the scattering of people across the subcontinent.
- The reasons for the Mfecane is much debated, but resource scarcity due to drought seems likely.
  - Ndwandwe (King Zwide) defeated the Mthethwa (Dingiswayo) in 1817
  - Chief Senzangakhona of the Zulu had died in 1816 and was replaced by his illegitimate son in a relatively bloodless coup – Shaka.
  - Shaka avenges death of Dingiswayo (to whom the Zulu were affiliated) by defeating the Ndwandwe
- Mass migration ensues over next two decades.

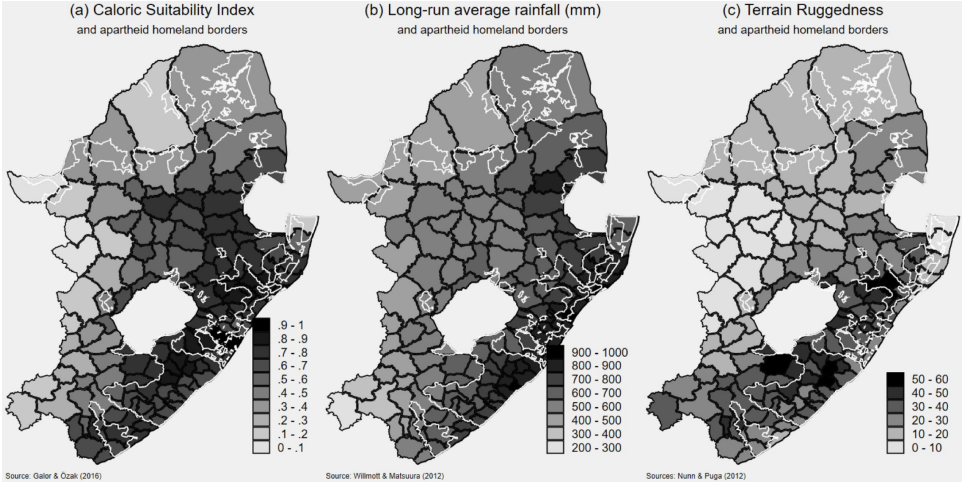


Source: Etherington (2011)

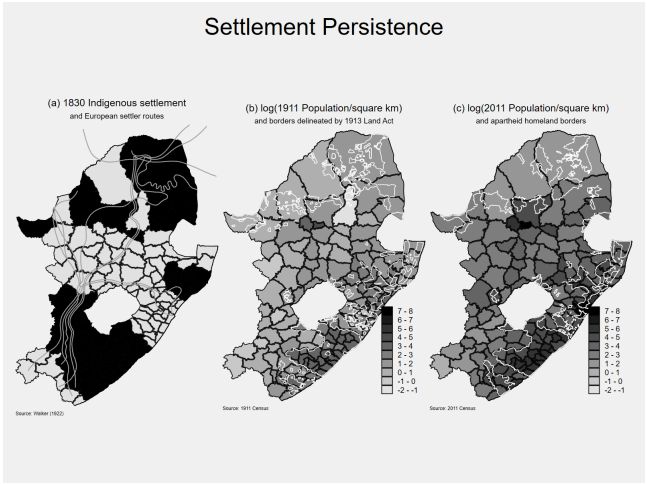
The depopulating of the interior

- The Mfecane forced people to either join the expanding Zulu empire or to flee.
- To protect themselves, many moved to fertile but rugged areas.
  - Eswatini and Lesotho are some of the most rugged regions on earth.
  - Just as Nunn and Puga (2012) posited for the slave trade, although settling in a rugged region provides security and reduces the ability to produce and trade a surplus.
  - Not only did population numbers decline because of warfare and famine (an estimated 1 million people perished) but those that survived migrated away from the open veld.
- By the 1830s, Cape Colony hunters were returning to from the interior reporting the effects of the Mfecane.
- In 1836, bands of settlers crossed the Orange river to start a new life.

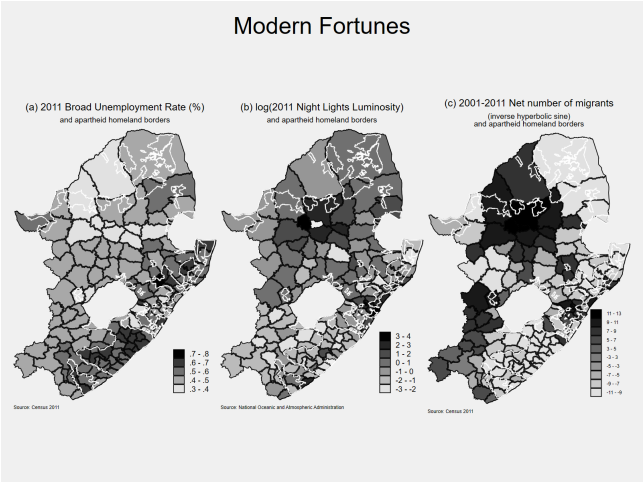
Fertile but rugged (Von Fintel and Fourie (2019))



Population persistence (Von Fintel and Fourie (2019))



Reversal of fortunes (Von Fintel and Fourie (2019))



Is it an AJR institutional reversal?

European colonialism led to an institutional reversal, in the sense that regions that were relatively prosperous before the arrival or Europeans were more likely to end up with extractive institutions under European rule than previously poor areas.
– Acemoglu, Johnson and Robinson (2002)

- No such institutional reversal – represented by changes in property rights – occurred in South Africa.
- Instead, what caused a reversal in fortunes was an institutional setting with differential extractive institutions:
  1. black South Africans were endowed with poor economic and political rights in both 'white South Africa'
  2. and the homelands.

Homelands after apartheid

- As Noble and Wright (2013, p. 197) show, the 'former homelands experienced high levels of poverty in the immediate post-*apartheid* era, and ... this continued to be the case at the time of the Census in 2001, and again 6 years later at the time of the 2007 Community Survey'.
- This is because many of the extractive institutions have remained in one form or another.
- In fact, Burger (2018, p. 220) argues that in many cases, these institutions have become even more extractive: 'legislation passed by the ANC-government [has] strengthened the powers of traditional chiefs and continue to undermine the tenure rights of the population'.

New democratically-elected president



Reconstruction and development programme



South Africa's economic miracle

- RDP adopted in 1993
- GEAR – the Growth, Employment and Redistribution plan – adopted in 1996: targets growth, job creation and macroeconomic stability
  - When I was a student...
- Tailwinds
  - End of Cold War, rapid globalisation, Madiba Magic
  - But, ultimately, it was Thabo Mbeki (president), Trevor Manuel (Minister of Finance), and Tito Mboweni (SARB Governor)
- Headwinds
  - 1998 Asian Financial Crisis, 2001 depreciation of the rand, 2002 small bank crisis
- But ultimately GEAR proved to be a huge success
  - Average inflation fell from 14% to 6%
  - Debt as % of GDP fell from 50% to 27%
  - In 2007, Minister Manuel could announce a budget surplus

South Africa's Joule



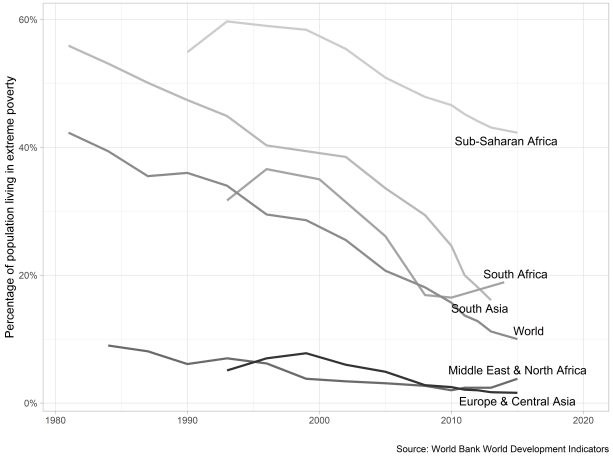
Consequences for living standards

- Social grants increased from 1.3% of GDP in 2000 to 3.3% in 2007
  - Still one of the best-targeted grant systems in the world
- Poverty declined
  - Finn, Leibbrandt and Woolard (2013) calculate that between 1993 and 2010, the poverty rate in South Africa fell from 37% to 28%
  - A multidimensional index – that also include things like housing, electricity, water and sanitation – is even more impressive: 37% to 8%.
- Job growth, unfortunately, was sluggish
  - Why?
- Education remained poor
  - Van der Berg (2007): 'Despite massive resource shifts to black schools, overall matriculation results did not improve in the post-apartheid period. Thus, the school system contributes little to supporting the upward mobility of poor children in the labour market.'

Not so fast: Politics intervene

- The state becomes more important in the economy
  - Number of government employees increase from 2.2 to 2.7 million, and their wages increase 22% more than private sector wages
    - One consequence is that the budget surplus quickly disappears
  - National Development Plan hopes to replicate GEAR's success
    - Hopes to use state-owned enterprises like Eskom and Transnet for this purpose
  - Sadly, exactly the opposite happens
    - 'Betrayel of promise'-report: 'From about 2012 onwards the Zuma-centred power elite has sought to centralise the control of rents to eliminate lower-order, rent-seeking competitors. The ultimate prize was control of the National Treasury to gain control of the Financial Intelligence Centre (which monitors illicit flows of finance), the Chief Procurement Office (which regulates procurement and activates legal action against corrupt practices), the Public Investment Corporation (the second largest shareholder on the JSE), the boards of key development finance institutions and the guarantee system'
- Many state-owned enterprises simply collapsed

South Africa turns around



How do you win the World Cup



Discussion



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