Piketty in South Africa: Debates and Dialogues; a critical evaluation

8th October 2015

From the 1st to the 3rd of October 2015, the Nelson Mandela Foundation (NMF) hosted Professor Thomas Piketty, renowned economist and author of the bestselling *Capital in the 21st Century*. The NMF was a partner at events held at the University of Cape Town, the University of the Witwaterstrand and the University of Johannesburg. Piketty also served as the speaker at the 13th Nelson Mandela Annual Lecture and provided additional inputs at the Social Partners Dialogue with leaders in business, labour and the state. The following paper serves as a critical reflection on Piketty's visit, his views on South Africa and the debates which emerged. Whilst not ignoring Piketty's broader work, the focus is on his visit. Further emphasis is placed on themes that were continually reiterated during the dialogues by both panellists as well as the audiences.

Piketty's arrival in South Africa was a part of ongoing work and dialogues in tackling poverty and inequality in South Africa that the NMF has been a part of since 2012. During Piketty's time in South Africa, the NMF launched the *Mandela Initiative*, an ambitious project to combine research, policy advocacy and dialogues on poverty and inequality in South Africa. This will be a partnership between the NMF and institutions of the academy, broader civil society, the state and the private sector.

Whilst many argued that Piketty's views were not new to South Africa, the impact of having him in the country renewed and placed additional emphasis on the urgent need to re-evaluate policy in South Africa in the wake of ever deepening inequality. It was stated that South Africa was having a 'Piketty moment' as more people became cognisant of the significant data and history behind structural inequality. This South African 'Piketty moment' comes on the back of inequality being a cause for concern globally as well and the realisation that 'trickle-down' economics, made popular four decades ago has not provided the required stability or growth to many countries.

Without going into the specifics of Piketty's thesis, there are certain specificities and concerns related to South Africa that were particularly apparent during the discussions and dialogues.

1.) **Growth versus Inequality:** One of the most prominent debates in South Africa is the difference in opinion over whether the focus in policy should be on increasing the growth rate and that, by virtue of this growth, poverty will be reduced. Piketty and many others, however, argued that inequality impedes growth and that the concentration of wealth at the top of the pyramid means that there is less for others to develop with the lack of capital available to them.
2.) **Inequality, violence and revolution:** In the opening paragraphs of *Capital,* Piketty refers to the events at Marikana as an example of the violence that can be caused by inequality. Relations between labour and business in South Africa are arguably the most hostile in the world and there is a significant concern that should this continue, and this inequality continue, violence will spiral. It was stated that the country "was at a knife's-edge" away from a revolution and the concern amongst all sectors of society was palpable. The concerns over violent revolution fit into many of Piketty's arguments and he claims that inequality was reduced in much of Western Europe due to violence and upheavals in the form of the

World Wars. During the Annual Lecture, Piketty stated that *"we know from historical experience that if inequality is not addressed through peaceful means and peaceful democratic institutions it's always potentially a source of violence."* Apparent during the dialogues was that within the country, there are many who believe that violence may be the only option in response to crippling poverty and growing inequality.

3.) **Unemployment and Inequality:** The most divisive argument throughout the dialogues was that of balancing the needs to reduce both unemployment and inequality. It was argued that drastic measures to reduce inequality may have the unintended side-effect of leading to increased unemployment. This was noted by many and in particular some in government positions (particularly on the financial side) and in business. This debate was particularly heated during the Social Partners Dialogue, whereby government, labour and business were all represented. Piketty himself however argued against this, by stating that there are many countries in the world such as Greece and Spain, which have high unemployment but much lower inequality levels than South Africa.

4.) **Uniqueness of South Africa**: Whilst inequality remains a problem across the globe, South Africa has a few unique characteristics. With 60-65% of the wealth spread to just 10% of the population, South Africa may be the most unequal country in the world. South Africa differs from many other unequal countries such as the USA as the top 1% in South Africa is not as big as these countries. However, the unique history of the country and the impact of apartheid created a situation in which the top 10% remain overwhelmingly white (particularly in the top 1%) and therefore many redistribution policies are based on race rather than income. Moreover, there are specificities in South Africa that also make it unique and this includes that of land ownership and spatial planning. The spatial dimensions of apartheid South Africa have been inherited and this remains a problem as inequality continued not only in business and wealth but in spatiality. This is particularly problematic as land and property become a driver of wealth generation.

5.) **Failed wealth transfer:** It was agreed by the majority of those in the debate that the transfer of wealth in South Africa has not been as effective as it should have, with some arguing that the redistribution project has been an abject failure. Key to the debate was the issues of land transfer land reform. Piketty argued that the "willing buyer, willing seller" model was not ideal and that some form of nationalisation was necessary. There was also a dialogue over the applicability of BEE and EE in South Africa and its importance. The consensus was that BEE did not fulfil its mandate and that there was significant room for improvement.

6.) **Absence of data:** During the discussions there was a lamentation by Piketty over the inaccessibility of data in South Africa. Whilst income data remains fairly accessible, wealth data remains shrouded. Moreover, Piketty noted that the vast increases in inequality according to the data could, in part, be based on increased tax collection and access to tax data. Yet, there remains a further problem in developing a dataset such as Piketty's as data collection in Africa is not as strong as it should be and new tools were needed in the absence of the archive. Moreover, there was a concern that there shouldn't be a reliance on "a history of numbers", and the reduction of the political economy to that of historical data points.

7.) **Capital Flight and Illicit Financial Flows**: Piketty, like many others, noted that colonial legacies followed by continued resource extraction have resulted in capital flight (both licit and illicit) out of the African continent. Startlingly, research has showed that these illicit

financial flows far exceed development aid. Tax havens, tax loopholes and a lack of global transparency have hindered efforts and stymied the process to limit illicit financial flows. Reducing these flows will undoubtable reduce the reliance of Africa on development aid and increase growth on the continent.

8.) **Global imperatives**: South Africa does not exist in a vacuum and global dynamics play an important part in shaping economic policy. Whilst Piketty argued that domestic policy is more important in reducing inequality, there was an acceptance of the role of global politics and a particular focus on the rise of China from many in the audiences and many felt that the growth of China made South Africa uncompetitive. On another note, Piketty himself also seemed unconvinced by the actions of the IMF and global financial institutions with regard to reducing inequality, citing the actions by the Troika toward Greece.

9.) **Income growth in SA**: Noted in the discussions was the growth of incomes as a cause of inequality in South Africa. It was highlighted that a large part of income disparity came from the salaries of skilled workers. Compounding the problem is the lack of skills for many others and the weakness of the educational system, which made workers uncompetitive.

10.) **Managing commodities:** The end of the commodity boom had severe implications for South Africa and particularly in communities which employed vast numbers of workers. What was noted was that business and business executives were able to reap the rewards of the commodity boom but once the market downturned, workers were first in the literal firing line.

Whilst the problems in South Africa were almost always agreed upon and there was agreement that inequality remained a problem, the debate over what should be done to combat this was robust and at times extremely heated. What Piketty and others stated was that there is no 'silver bullet' for reducing inequality and that instead a variety of tools are needed. These include the streamlining and fixing of current structures as well as the development of new policies.

Fixing

1.) **Fix land reform and land restitution**: Land remains a contentious issue in South Africa and the need for land reform outside of the market-based system that is currently being used is necessary. The manner in which this land reform takes place is important, as providing land to those without skills can be destructive to all those involved. The land restitution process has been far too slow and needs to be galvanised.

2.) **Democratic institutions:** Institutions are of crucial importance according to Piketty and there is the need to make sure that these institutions are democratic, efficient and accountable. During the dialogues there was a vociferous engagement with those stating that the problems in South Africa stemmed from government corruption and inefficiency rather than inequality. Therefore, strong institutions are vitally important. Piketty argued that national governments are able to deliver on services such as education and health and although it may not be perfect, they are not as unsuccessful as they are made out to be.

3.) **Fix the education system:** One of the most reiterated points throughout the dialogues was the need to fix the education system from the bottom up. The correlation between education and wealth has been noted in Piketty's work and educating the population, whilst not a guaranteed solution, provides a leg up for many. Education up to a tertiary level should be provided freely to those without means. Yet, it was also argued that there are differences

within a system and that those in private schooling have an immediate advantage over others.

4.) **Fix BEE and wealth redistribution**: Business needs to consider profit-sharing with workers. The end of the commodity boom was the starkest reminder of the limited involvement in securing the rights of workers. Whilst Piketty believed that the rights of workers should be secure, there was unease from business to accept this. Labour brokering and other contentious issues in South Africa need attention, reflection, research and dialogue. BEE remains an issue as well and there was a consensus over the need to revisit the application of BEE standards in wealth redistribution.

New Policies

1. **Minimum wage**: Piketty argued that a minimum wage is imperative in reducing inequality. What this wage should be requires introspection, dialogue and research. The minimum wage remained contentious in light of arguments over unemployment and the ability of companies to pay this wage. Heated arguments and calls of disingenuous intentions were made by both those in labour and in business and finding an appropriate minimum wage will prove to be a challenging task as an inappropriate wage could stifle growth and increase inequality.
2. **Wealth tax**: Piketty also suggested that a wealth tax should be levied on the wealthy and this could start at a very low level, for example, o,1% for those with wealth over 1 million to 0,5% for the very wealthy. This in turn could be increased or decreased depending on needs. The wealth tax would not only add to the fiscus and ease hostility but also add data for researchers and could contribute to understanding wealth dynamics in the country.
3. **Increased data and transparency:** Data on wealth, inequality and poverty remains a problem for researchers and policy makers in South Africa. Without the correct data and the tools to measure interventions, there is a strong likelihood that policy prescriptions could be incorrect. Piketty called for more data to be collected and shared with researchers on income in South Africa, but also on wealth. A huge part of this would be to open up data on estate tax, so that an indication of the assets of the dead could be used and extrapolated. Despite Piketty stating that it would be better to gain access to the records of the living, estate tax data is a useful starting point in understanding wealth dynamics.
4. **Internal investment:** The dominant discourse in South Africa, particular in big business, has been one of obtaining large amounts of direct foreign investment. Many actions taken by the state and the private sector are to appease investors and secure a steady influx of foreign capital into the country. Piketty on the other hand argues against this, and states that many countries in Asia that were able to escape or avoid the Middle-Income trap, did this through internal investment. This requires the creation of conditions conducive to internal investment.
5. **Privatisation and Nationalisation:** Piketty also questioned the dogmatic insistence that nationalisation is not as effective or efficient as privatisation by citing the differences in efficiency between the national rail in Britain and in France. The latter, Piketty argues, outperforms the former.

6. **Codetermination**: Piketty argued strongly that workers should be included in the management and oversight of companies, citing the success of similar projects in Germany and its effectiveness in stabilising labour relations.
7. **Re-evaluate fiscal policies**: Piketty stressed that many of the fiscal discipline and structural reform policies followed by or forced on countries are not the best tools in reducing poverty and inequality. He argues that inflation targeting is misdirected in many instances, as inflation can be a mechanism for promoting growth and reducing inequality. He stressed that this was a complex question, but called for critical evaluation.