

SA's debate begins here

We face a transformed world with which few in politics or business have yet come to grips. The consequences of surplus capacity and surplus production – and the credit boom that sustained its development and disguised its dangers – are challenges that the South African government and business must confront.

cars than children, said a news report that raised the question: Who will eventually drive the increasing number of vehicles being produced?

Part of the answer was the extension of credit. This helped to provide a quite lengthy respite – a holiday – from the inevitable crisis, as two- and three-car families became the norm in the

An almost religious belief in the market, and apparent ignorance of economic history, meant that most mainstream commentators, bankers and economists never saw the current global economic crisis coming. Yet it was perfectly predictable – and predicted – although the predictions tended to come from the more radical fringes of economic debate.

Yet even that standard bearer of the free market, *The Economist* magazine, noted in a 1999 survey that glut, leading to stagnation, was returning. The spectres of over-capacity and over-production were acknowledged to be haunting the world economy.

But similar warning signals were raised 20 and more years ago as the capacity to produce almost every basic necessity tilted towards ever greater surplus. In 1991, Europe, for the first time, produced more

developed world. The same applied to everything from sound systems and televisions to furniture, fittings and home loans. To varying degrees around the world, ballooning household debt became the norm. At the same time, soaring share values on the bourses of the world, often bearing little relation to any underlying value, added to the illusion of an ongoing boom.

These developments provided the basis for the warnings advanced in the 1990s by American economic historian Robert Brenner. They were brought together in his book, *The Boom and the Bubble*, published in 2002. But there were few prepared to listen. In the same way the warnings by New York University economics professor Nuriel Roubini about a pending sub-prime mortgage crash in the US were largely ignored, especially by a generally upbeat financial media.

As Columbia University media specialist Anya Schiffrin noted during a lecture in Johannesburg in July, this was a case of a “manufactured consensus that ended up being supportive of mainstream economic views”. By and large, the media merely accepted and reported the views of leading financiers, bankers, government officials and analysts – the popular faces of the business world.

It was a case of delusion fed by greed, self-interest and an inability or unwillingness to see beyond short-term financial gains or to learn from history. Even as late as 2006, for example, I was derided as a doomsayer by academic economists at a Goedgeacht forum in the Western Cape for arguing that over-capacity and over-production posed a major threat to the global economy.

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There was no special insight needed to raise such warnings; it merely required looking to the evidence of the real, productive economy; to the fundamentals of supply and demand in a profit-driven, competitive system. It also meant not making assessments about economic well-being based on the fluctuations of indices on Stock Exchanges. Courtesy of futures and derivatives trading, these supposed sources of productive finance often seem little more than casinos.

Yet despite this background and the accurate forecasts and analysis presented by the likes of Brenner, Roubini and others, all that now seems generally agreed is that there is a crisis which may or may not be weathered to one degree or another. And there is continued reliance on the same soothsayers of previous years. The billionaire currency dealer, George Soros, is now widely quoted as assuring us that the worst is over while Absa Capital's Jeff Schultz speaks of "green shoots" appearing in the economy. However, the usually upbeat Mike Schussler of economists.co.za conceded in July that there would be "no bounce back overnight".

But a bounce, or even a steady crawl, back to economic growth and social stability seems to be accepted as inevitable. Yet the solutions proposed by business, labour and government, ranging from advocating protective tariffs, labour intensive work and nationalisation to the scrapping of minimum wage legislation and greater funding for small and medium enterprises, ignore the systemic problem of over-capacity and over-production. Because of perhaps the greatest technological revolution the world has known, it is also unlikely to disappear.

That revolution – which nobody seems yet to have come to terms with – is the development of the advanced integrated circuit, the microprocessors or microchips.

Tiny slivers of silicon, they affect the lives of almost everyone on the planet today. From modern cars to cell phones, computers and supermarket checkouts to televisions, the chip is everywhere, making for more efficient, faster and cheaper communication

and retailing and stock control, and facilitating more consistent and lower cost production of almost everything we need – or are persuaded to think we need.

It has radically transformed much of industry, no more so than in motor vehicle manufacturing, where robots now do the work once carried out by hundreds – even thousands – of workers on assembly lines named after Henry Ford. Ford was no friend of the workers, but he understood that the survival of the system demanded the ability to sell, at a profit, the products that the sellers of labour create — and buy. In his 1922 autobiography he noted:

"... Our own sales depend in a measure upon the wages we pay. If we can distribute high wages then that money ... will serve to make storekeepers and distributors and manufacturers and workers in other lines more prosperous and their prosperity will be reflected in our sales".

He did not, of course, foresee an absurd situation where the world would wallow in a sea of over-capacity and over-production, where the rate of unemployment – and the consequent decline in purchasing power – would soar as a result of technological advances in a system incapable of dealing with them.

This is the reality that must be confronted, and where the debates should begin, if there is to be any serious hope of clambering clear of what may be the most severe economic crisis the world has faced. ^a



This article was written by **Terry Bell**, a writer, editor and columnist specialising in political and economic analysis and South African labour matters. A former teacher, political prisoner and exile, he has a master's degree in creative media practice and an international law-based diploma in international affairs. His latest book *Comrade Moss – a political journey* appeared this year.

The Big Question

How does – and should – South Africa relate to the global economic situation? Is there any solution on a national basis? We already have a tripartite forum in Nedlac where government, business and labour are tasked to work out common, collaborative, strategies. So far we have its February National Framework Agreement ... Is reform or radical transformation the way out of the crisis? What needs to be done and how?

What do you think? Write to agenda@usb.ac.za; or sms us at 39841 (standard rates apply).