Growth and redistribution can help inequality

In Rapport of 25 February, economist Dawie Roodt said that South Africa has to have only one goal, and that is to create wealth. Roodt is right, of course we have to create wealth. Economic growth has always been one of the most important leverage with which we had to lift millions of our fellow citizens out of poverty. The bigger, and much tougher, question is how to create wealth: Mandela's way or Mbeki's way?

Every new captain of the ANC ship, as Roodt refers to them, had his own ideas. Mandela implemented the macroeconomic Reconstruction and Development Plan (RDP). This plan directly addresses inequalities. This means service delivery, schools, homes. Everyone is entitled to a dignified life. But this is expensive, and for this reason economic growth is needed. The RDP plan was therefore two-sided, economic growth in order to address equality. It is also a slow process, it takes a long time to build a few million houses and for people to naturally rise out of their circumstances.

When Captain Thabo Mbeki took over the wheel, he quickly realized that people were tired of waiting and Mbeki became impatient. Mbeki replaced the RDP with his Growth, Employment and Redistribution (GEAR) policy. Mbeki, an economist, believed that economic growth is the only medicine. He hoped that even inequality would not be a problem under GEAR.

To understand how economic growth can address inequality, we must think of a cake. A cake that is shared by everyone in society. Inequality is when some people get a big piece and others get a small piece. Economic growth is when the cake grows, allowing everybody to get more cake even if your piece is still relatively small.

The problem with this is that nobody will be satisfied with a smaller piece of cake than his mate. It does not matter that you get more cake than previously. And here, Malema and his angry-red EFF mob, may make sense. It is not necessarily about absolute income but about a fair distribution.

Many economists say that this is not a problem, when the rich get richer, they spend money and it trickles down to the poor. Unfortunately it is not always the reality. The rich save a greater portion of their income than the poor do. And the moment you do not spend money, you're taking that money out of circulation, which means it does not trickle down to the poor. A rich man with R1 million spends less of it than 1 million poor people with R1 each.

Here Mbeki failed, inequality only worsened under his rule. In 2008, South Africa became the most unequal country in the world. Mbeki tried to patch things up by introducing other policies, such as grants and black economic empowerment, but it only created an economy of dependence. It does not create a society where efficient work is rewarded.

Emotions were running high, people were angry, and the Zuma bomb was just about to go off.

With Zuma it was very easy to criticize. Any person outside of Zuma's circle of friends would disapprove of how he ran the country. A corrupt, kleptocratic regime, with tons of dead weight. This is not a good macroeconomic plan. Fortunately, Ramaphosa has made it clear that he intends to do things differently. With a new Eskom board, warrants issued for the Guptas, Duduzane Zuma, and the withdrawal of appeals for Shaun Abrahams, Ramaphosa seems to be putting his words into action. And that's good, but if Ramaphosa does not rule like Zuma, is he going to rule like Mbeki or Mandela?

It seems that Roodt is a supporter of the Mbeki-school. The government must pave the way for every business and then get out of the way. Roodt also believes that the state must pay attention to poverty, inequality and unemployment but only as long as it is cost-effective. Moreover, the state must create a business-friendly economy. Businesses will then encourage growth and solve our problems. And then Roodt concludes: "We need a new plan. A plan with one goal and that is to create wealth. We can."

Yes, I agree with Roodt that the state is hopelessly ineffective and clumsy, with complex labour laws and a lot of pressure on taxpayers. Here, Ramaphosa can definitely clean up and make life easier for industry. And maybe our economy could even lift its head again. But that cannot be the only goal. We will have to dust off Mandela's two-sided plan again. We must create growth and prosperity with a plan how it will help the poor specifically. To create an environment where hard, honest work is rewarded for everybody in the country. Ensuring a humane South Africa for all citizens. Otherwise, emotions might rise again, or we will get another Malema or another Zuma, and that will be costly. We must create wealth for everyone. We can, but more importantly, we must!