Urban Restructuring and Broad-based Socio-Economic Development?

By Drs. Arumugam Pillay and Paul Hendler of INSITE

The National Treasury, through its Cities Support Programme (CSP), is taking the initiative to support the eight metropolitan municipalities to transform the way they govern and manage their cities. The intention is to get cities to run more efficiently with respect to delivery of services, attract investment, grow their economies, decrease their carbon footprints, develop resilience to climate change-induced weather shocks and, last but not least, give the vast majority of economically active people access to jobs, and all citizens access to public and social amenities. The assumption is that there will be an inevitable upswing in the business cycle in metropolitan areas, expedited by more efficiently run and investment-friendly cities. Growing urban economies will also contribute to resolving broader socio-economic challenges in the country as a whole: rural populations are dependent on remittances earned through migrating to work in the urban areas.

These are daunting objectives but in the face of ongoing citizens protests (more than a decade-long phenomenon) as well as the threat of global warming, bold initiatives are required, like the CSP, which incentivises metropolitan municipalities to integrate their areas of jurisdiction through public transport infrastructure and to facilitate compact and dense developments along transport spines. The CSP's urban network strategy (UNS) has three prerequisites for economic development: financial and regulatory instruments (at a national and provincial level), and area-based management and economic development services (both at a municipal level). If all these are in place, so the argument goes, integration zones, where there is public investment in catalytic infrastructure projects (especially public transportation) will be the developmental spaces that 'crowd in' household settlement, and private investment will follow.

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The weakness of the strategy is its assumption of the inevitable upswing in the global business cycle, the ability of cities to afford the infrastructure required for ongoing in-migration and the fact that it omits describing *how* broad-based, inclusive and eco-sensitive economic development with significant employment opportunities should happen.

An upswing in the business cycle in metropolitan areas is not assured given the overleveraged global economy as well as the depletion of critical resources like oil (oil-derived products and by-products are ubiquitous material elements in the global production and circulation of commodities): the limits to growth arising from the falling production of oil are likely to contribute to persistent stagnation punctuated by price volatility as each new upswing in the business cycle prompts sudden and rapid spikes in the oil price (as happened in 2008) and then a recession. Overlaid on this process is the fictitious value of financial, insurance, real-estate and derivative assets that dominate the global Gross Value Add – this adds a further risk of sudden and rapid deleveraging, prompting credit crises. Current growth rates remain well below the elusive five per cent target.

To date city governments have managed to fund the infrastructure required to cope with ongoing migration from significant margins through on-selling Eskom electricity. But they need to move off a fossil-fuel path dependency and this will entail loss of this income, which is critical for maintenance and renewal of existing infrastructure, which is already under-budgeted. Alternative sources of revenue, through increasing local taxes and borrowing, will be constrained by declining household affordability that may in turn threaten repayment levels. Inadequate investment in infrastructure capacity has already led to 57 per cent of South Africa's river ecosystem types and 65 per cent of wetland ecosystem types being classified as threatened – there could be further ecological collapse as metropolitan areas struggle to cope with growing population pressure.

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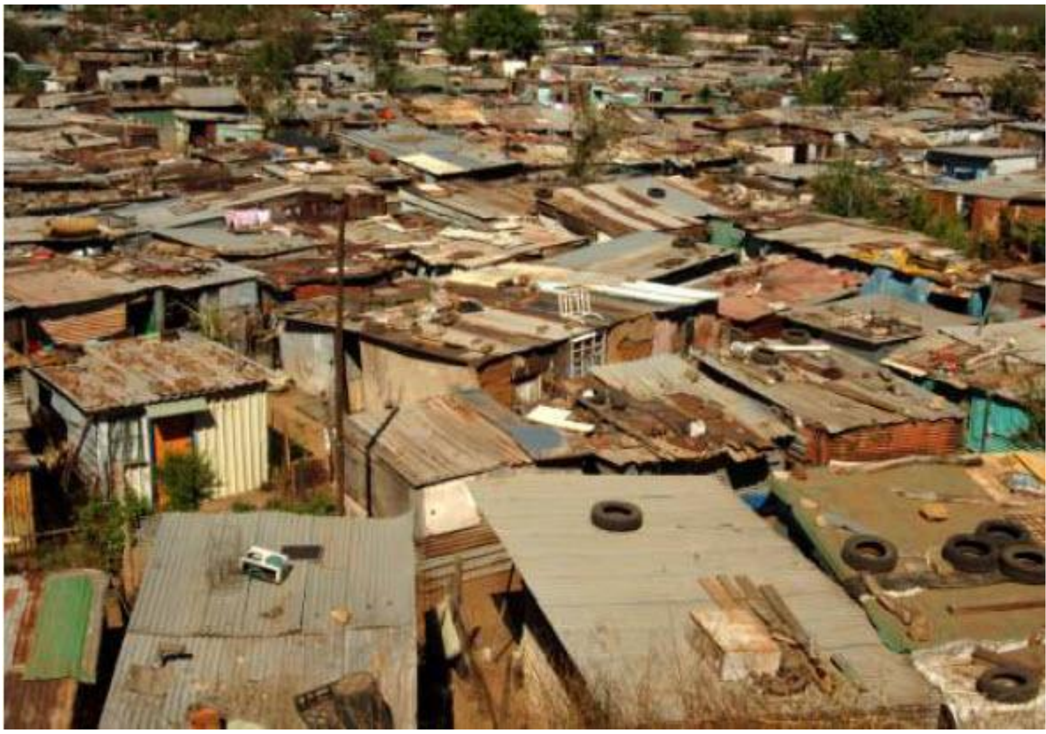
The missing factor in the UNS is state intervention aimed at economic restructuring: it simply assumes that both job creation and green manufacturing will happen without explaining *how*.



Currently hundreds of billions of Rands are leaving our shores annually through legal exchange transfers as well as fraudulent transfer pricing – this significantly reduces the amount of capital available domestically for productive investment. Even if the regulations to staunch the outflow of funds were tightened, too little of the capital that remains in the economy would find its way into productive investment. Local, corporate investors prefer to invest in financial assets that appear less risky and provide a larger, quicker return – while this adds to the GDP it is jobless growth because no labour is involved in the growth of financial assets. Investors are attracted to jurisdictions with relatively low rates of taxation on gross operating profits. Therefore lowering the taxes on companies in green manufacturing – and raising them by the same amount for investments in the financial, insurance and real estate sectors - should provide a powerful incentive for reshaping investment flows in a way that facilitates employment.

The challenge is to implement a coherent rural development based on state technical and financial support for feasible 'accumulation from below' by current smallholder farmers and households in traditional areas, stem the outflow of funds from the country and re-direct investment funds away from finance, insurance and real estate (the jobless growth sectors) and into manufacturing. Rural development will take some of the pressure off metropolitan municipalities while enhancing rural food security, and exchange controls and fiscal reform will help create productive investment flows. To achieve this requires government intervention strategies for both urban *and* rural development – key aspects are fiscal reform and a coherent policy framework for municipalities as public sector developers supporting improved quality of life and work opportunities for both the urban and rural working classes. However, the Treasury mindset is to leave the economy alone on the assumption that economic processes are given and government should best not mess with them for fear of economic destabilisation.

Contradicting this assumption, our history is replete with examples of how state intervention drove economic growth and development. The Glen Grey Act of the late 19th Century forced nomadic Nguni pastoralists off their lands by requiring them to pay hut and poll taxes in cash, and thereby helped to create the urban proletariat that built the diamond and gold mining industries. During the 1960s the *apartheid* system of racial capitalism channelled the labour required between the mining, agricultural and manufacturing sectors,

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resulting in South Africa's economy delivering some of the highest growth rates in the world. These government interventions violated the rights and human dignity of the people of colour of our country, particularly the black African majority, but the point is that state intervention built and shaped the most industrialised country on the African continent. This should give us pause to question the received wisdom that economic development happens best when it is left to its own machinations.

The CSP's focus on public transport infrastructure to connect the workforce to places of work as well as consumer markets is clearly a *necessary* condition to incentivise investment. However, unless this strategy is aligned within a larger programme of state intervention including effective exchange controls, fiscal reform and municipalities playing the role of public developers, it runs the risk of expediting financialisation and jobless growth. Ongoing poverty and unemployment will lead to increased social protests and instability. Ironically, the public infrastructure could become the conduit of these protests as happened in Brazil on the eve of the recent World Cup tournament.