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Fair markets can drive growth and economic transformation

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South Africa has been mulling over the need for structural economic reforms to promote growth and employment; but progress is lagging.

There is no consensus on the broad shape of reforms necessary to deliver social and economic transformation as it became clear in the recently concluded 53rd ANC national policy conference. Going into the conference, two policy chasm dominated the discourse as the vital interventions for driving change and shared prosperity.

These included spirited calls to disintegrate (white) monopoly capital as the key impediment to inclusive growth and development through (radical) economic transformation - which for the most part meant materially changing the structure, ownership, management and control of the economy. With the benefit of hindsight, rightly or wrongly, we now know that the conference discussion over the two policy slogans largely reflected on their conceptual characterisation rather than the practical manifestation and instruments for driving change.

There has thus been a missed opportunity to provide a diagnosis of monopoly capital practical implications on ordinary citizens and the broader economy including how best to address it. In its Strategy and Tactics document, the ANCs primary concern with monopoly capital relates mainly to super profits, import parity pricing, entry barriers and greed but stop short of explaining the undesirability of such concerns on the broader economy. This formulation lacks analytical depth and may as a result fuel the public scepticism on the soundness of the policy slogans.

The essence of monopoly capital as a catchphrase is about characterising the nature of firm (public and private companies) behaviour and the organisation of industry and how such conduct affect investment, production and consumption decisions. It is the manner in which the market or economy is structured. A widely accepted description or lexicon that befits monopoly capital as a symbolic and perhaps rhetorical characterisation of South Africa's economy is "highly concentrated or vertically integrated" market structure, bearing reference to the dominance of few large firms within particular sectors of the economy.

This point is elucidated by the fact that 50 percent of South Africa's output or GDP, estimated at R2-trillion in 2016, is generated by 1 percent of the firms. Companies employs a number of tactics to remain dominant in the market and prevent entry of new market players. Dominance enables companies to accumulate windfall profits, i.e. surpluses above normal profits, which are in turn reinvested across upstream and downstream supply chains to assert market power. The structure result in concentration of profits or capital among few people at the top through high dividends returns, prejudice the welfare of consumers through limited choice, thwarts the growth of small businesses and most disturbingly reinforce income inequality and throttle growth.

To the extent that a highly concentrated economy adversely affect the distribution of wealth and income, those calling for policies to transform the economic structure are justified. Policies are however not opinion pieces; they are systematic, scientific and aspirational statements of intent backed by rigorous information. Policy makers seeking to dismantle market concentration must understand analyse the behaviour of dominant firms in localised environment, review various available remedies and design a coherent set of policies to achieve the desired market structure.

South Africa's consumer goods retailers provides a perfect example for understanding how firms can entrench their market power to the detriment of overall development outcomes. From a distant the sector of course appears fairly competitive comprising a number of small independent retailers and five big retailers with a combined market share of 60 percent, but the market operate as a system.

In recent years the country experienced an unprecedented expansion in retail footprint driven in part by strong growth in consumer demand and shopping mall development. To be fair, these expansions are beneficial to customer welfare by making grocery items and services available close to where people live at lower prices. More importantly retail expansion bring added benefits of direct and indirect employment opportunities. With these benefits in mind it would seem inconceivable to antagonise the structural make-up of the consumer goods sector, given the potential developmental effects particularly for underserved areas.

However, when the retail sector is viewed as a system, it does poses developmental risk especially for a country with uneven levels of development such as South Africa. As a system big retailers are engaged in a consistent strife to assert their dominance by building more branches. The ultimate aim these retailers is to captivate consumers and make it impossible for the new players to enter the industry. Using their deep pockets, retailers employ marketing strategist to plan around the disposal income of unsuspecting consumers. Having been captivated, consumers are left with limited options from which to purchase and therefore susceptible to price abuse.

Further, wherever they set-up shop retailers engage in a number of obscure uncompetitive dealings. These powerful 'privileged markets' using IMF Deputy Md **David Lipton**'s description, use central procurement systems and stock similar brands from another layer of few vertically integrated suppliers. In essence, the competition that exists only occurs superficially between retailers but not across the product range on the shelves.
The product composition of retailers is dominated by brands from few and large consumer goods suppliers who sometimes enter into exclusivity arrangements with big retailers to intensify dominance. To this day, it remains hard to find more than three competing product brands for any consumer item. In some instances, two brands of the same product line are produced by one supplier, in what is called product differentiation, which in effect create a false sense of competition.

New and small suppliers that wish to secure shelving space have to navigate a costly process of complying with unreasonable slotting allowances or shelve space fees such as fees for the privilege of having their goods stocked, for advertising and transferring the risk of over-stocking or breakages and even to be paid in 30 days. Exclusivity arrangements are further reinforced through standards requirements and lease agreements used by anchor tenants to preclude competitors from accessing rentalspace.

South Africa's road infrastructure, low backhaul rates and the massive warehousing facilities exacerbate dominance by enabling retailers to source and store inputs hundreds of kilometres away even if alternative products are available locally. For their part, retailers find it cost efficient to source from big suppliers who can meet scale requirements and distribute from a central point. However, from a broader development perspective, this market arrangements exacerbate disparities between mature and infant firms. South Africa needs an inclusive growth and development strategy, which is not only premised on reconfiguring the management, control and ownership of the economy.

Fostering fair markets should be at the centre of transformation agenda and should entail fundamental tightening of competition laws, investment in market intelligence to inform the design of policies for supporting new market players. The current Competition Commission market inquiry into the entry of retail giants into the townships is a good starting point but further requires complementary and market sensitive local planning and economic development policies, BBBEE, small businessdevelopment and industrial policies.

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