A New Growth Path or New Frustration?

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It's scenario time again! – not since the political transition from apartheid has there been such a publication of material as we have seen in the last three months: from labour, business, NGOs and the state. And more is coming: from business and, in due course, from the National Planning Commission.

What accounts for it? One cause can be found in the removal of the policy straitjacket of the Mbeki presidency at Polokwane, leaving the way open for diverse voices to enter the debate with less anxiety than before. A second has been the global financial crisis which has had two rather different effects.

- Polokwane created the policy basis for looser monetary and fiscal policy and, hence, for the application of new state resources to new purposes. However, in the interval between December 2007 and May 2009, the margin of resources simply evaporated and South Africa found itself running a considerably larger budget deficit than Polokwane had authorised, leaving the new administration without the resources to announce new initiatives while confronting the loss of close to a million jobs.

- On the other hand, some have seen the crisis as weakening the authority of US-style capitalism, leaving the space to revisit issues of economic organisation last debated in the early 1990s.

COSATU, the NGP and IPAP2 have overlapping, but not identical, proposals for a new growth path whose central feature is more rapid employment growth. Teasing out the implications of these proposals is the central purpose of this analysis, though, towards the end, other proposals will be discussed.

COSATU sees sixteen years of 'neo-liberal' policies as a betrayal of working class interests and proposes instead the creation of a purposive state that solidifies working class hegemony, not solely through the ballot box, but through the reconfiguration of power relations within the democratic movement and society in general. COSATU's state will have the following key features:

- Nationalisation of the mines, steel production and petro-chemical industries (whose capital stock is of the order of R500 billion).
- Credit allocation, including concessionary finance and differential interest rates, quantitative controls on the financial sector, management of the exchange rate, and taxation of financial transactions. All this would require, at least, heavy intervention into the financial sector.
- Promotion of the manufacturing sector, especially the sub-sectors which are labour intensive, balance of payments improving, and which produce strategic inputs for other sectors or basic goods.
- An employment guarantee for all willing and able to work at a statutory minimum wage.
- Direct state production of basic goods and strategic inputs for targeted industries.
- An incomes policy for the private sector.
- A highly skilled technical cadre to drive the state apparatus and the economy as a whole.

Economic success requires optimising decisions to be made by a great many people using information relevant to their enterprises. This information cannot be effectively centralised and, even if it could, it would overwhelm state decision makers.

Leave aside the niceties of Section 25 of the Constitution. Instead, focus on the state. COSATU recognises, accurately, that its proposals will require expansion of state functions. 'The state must have a highly skilled technical cadre to drive the state apparatus and the economy as a whole.' (p 34)

IPAP2, endorsed by both COSATU and the NGP, contains an astonishing range of government proposals – from rehabilitating the tool, dye and mould-making industry, to rolling out a solar water heating programmes to developing marine aquaculture zones to promoting exports of beneficiated rooibos and honeybush products, to facilitating learning for car component manufacturers and much, much, else besides.

A century ago, it was a popular view that highly skilled state administrators would be a sufficient condition for the success of extensive state regulation of economy and society. It is not a view which has worn well. Economic success requires optimising decisions to be made by a great many people using information relevant to their enterprises. This information cannot be effectively centralised and, even if it could, it would overwhelm state decision makers. This does not imply that that there is no role for the state in the economy, especially when setting or influencing broad parameters, but it casts suspicion on proposals for detailed market-replacing micromanagement of the economy. At worst, the result can be the complete inability of the old Soviet-type system to supply an adequate range of consumer goods. In milder form, it can produce the sluggish growth of the Indian 'license raj' of the first forty years after independence. And more than one apartheid-era civil servant threw up his hands at the complex and contradictory policies he was expected to administer, and went farming instead.

Macroeconomic variables are precisely the sort of broad parameters which all states aim to influence or set. Consider interest rates for example. COSATU, IPAP2 and the NGP all want low positive real interest rates, though there are differences in their scope and how these are to be achieved. The NGP specifies that ' the monetary policy stance will continue to target low and stable inflation, but will do more to support a more competitive exchange rate and reduced investment costs through lower real interest rates' (p 16). This is to be accomplished through easier monetary policy and tighter fiscal policy. At a given level of national income, this would entail higher private investment at the cost of either reduced government spending, or reduced private consumption as a result of higher taxes. On this view, fiscal policy takes over from monetary policy as the discretionary regulator of the business cycle – a task not so easily accomplished given that fiscal parameters are set annually while monetary policy can be reset several times a year – and at any time if urgent.

IPAP2, on the other hand, is concerned with low interest, concessional finance for industrial development, rather than the interest rate in the economy as a whole. The DTI is searching for a domestic source of concessional finance akin to the link between the Brazilian Workers' Compensation Fund and the Brazilian National Bank for Social and Economic Development. COSATU holds that 'quantitative control measures on the financial system, more than interest rate manipulation, will have to be applied in order to support changes in industrial structure' (p 80). If investment funds are allocated administratively, the rate of interest on them can be determined administratively as well. The Brazilian arrangement has, of course, the consequence that concessional finance to industry is allocated at the expense of either the compensation package offered to workers or of a growing public liability within the Workers' Compensation Fund. And extensive quantitative intervention in financial markets risks a sub-optimal pattern of investment.

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The international dimension of macroeconomic policy adds further complexity. Countries can achieve two, but not all three of the following goals simultaneously:

- Exchange rate stability
- Monetary policy autonomy
- Freedom of capital movement

South Africa maintains monetary policy autonomy and freedom of capital movement (now greater than at any time in the last fifty years) and operates a floating exchange rate. COSATU believes this to be a mistake and that the relaxation of capital controls should be reversed. (p 67) The NGP equivocates. It does not argue for capital controls but says that monetary policy will 'do more' (p 16) to support a more competitive exchange rate. One measure is the additional and larger purchases of foreign currency flowing into South Africa and to allocate them to an African Development Fund. There are also rather vague references to measures to address the negative effects of short-term capital inflows and global agreements to deal with imbalances. Everything here depends on the response of the exchange rate to government purchases or sales of foreign exchange, and here there is room for scepticism. The last attempt to defend an exchange rate a decade ago did not have a happy outcome. The exchange rate plunged from R 6.88 to the dollar in July 2001 to R 8.20 a year later to R 11.61 in January 2002. The repo rate rose from 9.50% in September 2001 to 13.50% a year later. In the process, South Africa acquired a substantial 'net open forward position' – future liabilities that it had not the foreign exchange to meet.

A common thread runs through the NGP, IPAP2 and the COSATU document when it comes to the role of manufacturing in the economy. The idea is that South Africa misses out on a large number of opportunities for adding value within the economy by (a) exporting unbeneficiated resources and (b) by consuming imports rather than locally produced goods. IPAP2 assigns the blame to the low profitability of manufacturing to:

- A volatile and generally over-valued exchange rate
- The high cost of capital
- Failure to exploit domestic supply opportunities
- Monopoly pricing
- A low level of skills
- Aged, unreliable and expensive infrastructure.

In the light of all this, one would expect a low share of manufacturing in total output in South Africa. The World Development Tables for 2010 put this share at 19% of GDP for South Africa, which is in fact not low by either advanced industrial countries [US 14%, UK 21%, Germany 24%, France 12%], rich resource exporting countries [Australia 10%, Canada 18%], or BRIC [Brazil 16%, Russia 18%, India 16%, China 34%] standards. Our current share of manufacturing does not in itself require major shifts in economic policy.

How should sectoral performance within manufacturing be evaluated? IPAP2 proposes three criteria: value added by the sector, employment within the sector and the net balance of trade for the sector. COSATU would add import penetration and potential of the sector to export. But are these indicators sufficient? What matters is the welfare effect of policy changes, so the effect on consumers needs to be considered. The cost of intervention in the automotive industry has been the high cost of cars in the South African economy for decades. This loss to consumers is simply invisible in the IPAP2 / COSATU scheme of things. In the case of a tariff on imports, there is redistribution from consumers to producers and the government. The deadweight loss may be outweighed by a terms of trade gain if the tariff is small. In the case of an export subsidy, there is an unambiguous net loss of welfare, some of which is captured by the importing country. Not understanding this can lead to the wrong conclusions. IPAP2 offers us a case to consider:

> A good example is the recent purchase by the Johannesburg Metro of buses for the first stage of their Bus Rapid Transport System. The tender for buses was finalised at such a late stage that it was impossible for local manufacturers to increase production. All buses were imported from Brazil, backed by highly concessionary export finance.

IPAP2 would have us believe that this was bad for us and good for Brazil. On the contrary: we benefited from their export subsidy, and they paid for it.

Turn now directly to the labour market. In the short run, the NGP advocates direct employment schemes, targeted subsidies and a more expansionary macroeconomic package. COSATU proposes the conversion of the Expanded Public Works Programme (EPWP) into an Employer of Last Resort (ELR)Programme which would offer: (a) employment for everyone willing and able to work, but unable to find work elsewhere; (b) skill-differentiated minimum wages and (c) skills development. There would have to be articulation between the ELR and the Unemployment Insurance Fund. COSATU believes that the ELR programme would not cost more than 3% of GDP, but then goes on to note that the ELR could create 571 000 jobs at an average wage of R 750 per month at a cost of 1.1% of GDP (p 60). 3% of GDP would then create just under 1.6 million jobs – well short of aggregate unemployment – and at a wage COSATU would consider much too low.

This raises the issue of 'decent work', emphasised by the NGP and COSATU alike. The phrase originates from the International Labour Organisation (ILO) with whom South Africa signed a *Decent Work Country Programme 2010 to 2014* last September. The four criteria for decent work are:

- the quality of employment and income
- fundamental principles and rights at work in relation to international labour standards
- social protection and social security
- social dialogue between business, government and labour.

Work which fails to meet these criteria is regarded as 'atypical'. Unemployment and atypical work constitute the 'decent work deficit', to be overcome by 'job rich development'. The agreement with the ILO contemplates:

- further South African ratification of ILO conventions
- improvement of labour administration
- research into trade policy and decent work, industrial policy and decent work, agriculture and decent work and the EPWP and decent work, temporary work, private employment services and decent work and the informal sector and decent work, and minimum wages
- support for small and medium enterprises and non-governmental organisations
- support for skills development
- assistance for a broad social security system
- improved safety and health (including HIV/AIDS management) at work and improved worker compensation
- strengthening NEDLAC and bargaining councils.

How large is South Africa's decent work deficit? Leave aside the system wide variables such as the quality of social assistance/social insurance, the institutional bargaining framework and the quality of labour administration, and concentrate on the characteristics of labour market status. The ILO believes that there is an urgent need for national consensus on what constitutes a minimum wage and a minimum level of living to meet the constitutional guarantee of life and dignity. On that basis, jobs which pay less cannot be decent work.

An estimate may be formed as follows from the third quarter 2010 Labour Force Survey. The assumption is that a modest R 1500 per month forms the basis for decent work. A higher threshold would make the table look worse. As it is, it indicates the size of the challenge facing the decent work programme.

	Total (Thousands)	Decent work	Not decent work
Labour force (including discouraged workers)	19 404		
Discouraged workers			2 033
Unemployed			4 396
Informal sector			2 172
Formally employed:			
Agriculture	640	320	320
Private households	1 119	373	746
All other sectors	9 043	8 139	904
TOTALS		8 832	10 571

Source: Statistics SA, Quarterly Labour Force Survey, 3rd quarter 2010 supplemented by information from the 2006 General Household Survey

The Centre for Development and Enterprise approaches the problem in another way. It focuses on youth unemployment and proposes the following:

- Give a combination of tax breaks and year-long exemptions from laws on hiring and firing to employers hiring first time employees between the ages of 18 and 24
- Create special economic zones, in which businesses are exempt from company taxes, tariffs and all but the most basic labour and health and safety laws
- Pilot a vocational education programme linked to apprenticeships in some of

South Africa's rapidly growing medium-sized towns
- Create large and very simple employment schemes in the poorest provinces.

These are emergency measures, though some of them have the potential to develop into longer-term institutions. The first three would work by lowering the costs to business of hiring the young. It is not as ambitious as the decent work agenda and thereby does not make the best the enemy of the good.

In general, the business proposals are modest and aim at practicability. Spicer and Godsell report, for instance, that in a survey of Business Leadership's members, about a third reported that South African markets for their products are constrained or saturated, and that South Africa needs broader and deeper regional markets. They see the route to this not via grand political projects, but by a series of small steps to make the movement across African borders of goods, money and people more efficient and less costly. They suggest regional recognition of education and skill qualifications, harmonised standards and registration requirements for companies, joint immigration and customs posts, enhancement of financial instruments and common infrastructural projects.

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Equally, Business Unity South Africa advises prioritising the delivery of existing state responsibilities before embarking too far on the developmental state. They point out that much more could be achieved if the state concentrates on carrying out its present responsibilities effectively. They welcome the promised review of state owned enterprises and advocate a bold approach to public-private partnerships as a means of providing the infrastructure necessary to support rapid growth.

But the big issues for both BLSA and BUSA are skills and education, and considerable emphasis is placed on these in the NGP and by COSATU. But the dimensions of the problem are not always in focus, so it is worth setting out some salient facts:

- Falling fertility has stabilised the size of the school population (from Grades 1 to 12). Even with immigration from countries to the north, the total school population is likely to fluctuate between twelve and thirteen million. There will be no appreciable gain in quantity, so that if we want more skills we shall have to improve quality.

- Nearly all those who start in Grade 1 reach Grade 9. However, from Grades 10 to 12 there is much repetition and drop out. Not much more than half the learners leaving Grade 9 actually write the National Senior Certificate. Fewer than half leaving Grade 9 pass it.

- There is much that can be done at all levels of the school system to improve the situation. A study of teacher utilisation conducted in 2005 found that teachers spent, on average, about two-thirds of the expected time in class teaching.

Management leaves much to be desired in many schools. A sense of grade-appropriate standards is sorely lacking among many teachers. At the root of many problems is inadequate accountability: from individual teachers to heads of department to principals to school districts to provinces.

- But when all is attended to, there will still be a large number of learners not suited for preparation for the National Senior Certificate in Grades 10 to 12. The government has reformed the further education college system and plans to double enrolments in it by 2014. These will offer National Certificates (Vocational). They could, and should, also be used to start learners on the lower rung of industrial training unit standards on the National Qualification Framework.

- The industrial training system introduced a decade ago has not been an unqualified success. BUSA believes that the Sectoral Education and Training Authorities (SETAs) are gradually improving, but that progress is far too slow. The NGP has very ambitious targets for SETAs. COSATU wants much wider availability of adult basic education and training.

- The NGP wants at least 30 000 additional engineers by 2014, but it appears not to have taken on board that it takes between five and six years on average to produce an engineer. Few get through the course in the minimum of four years. Moreover, the mathematics and physical science output of the schools is limited. It ought to be possible to produce 70 000 mathematics passes and 40 000 physical science passes each year with a mark of 50% or higher. In fact, the system is operating at 70-75% of these targets. Mathematics passes have a long way to stretch; they are needed for mathematical and natural sciences, engineering, architecture and commerce. Physical science passes are needed for natural science and engineering.

- Higher education will probably need another five years to accommodate the three tiers of pass from the National Senior Certificate. The universities know how to deal with degree entry passes. They are not yet used to higher numbers of diploma entry passes or to fewer, but still many certificate entry passes. Further education colleges can offer certificate and diploma courses at the higher education level, but even they will struggle with absorption.

Two points by way of conclusion. The first is that South Africa, in a sense, has been here before. The uncertain rate of growth in the early years of Union led to the introduction of affirmative action for whites in employment from 1924, and by the end of the Great Depression in 1932 there were many special employment schemes, including back to the land schemes (compare the NGP's proposals for opportunities for 300 000 households in agricultural smallholder schemes plus 145 000 jobs in agroprocessing). Following the departure from the gold standard in 1932, the economy expanded rapidly (a windfall gain) and it is remarkable how quickly interest in all of this state intervention declined; by 1939 virtually nothing was left. A period of rapid growth now would have much the same effect.

And finally: what will be the political implications of the global financial crisis? At one level it has dramatised the changing balance of economic activity between the United States and the European Union on the one hand, and the rest of the world, especially Asia, on the other. The underlying shift has been going on for some time and will continue, affecting the politics of global economic regulation. The rise of the G20 – to which South Africa belongs – in the last decade gives institutional recognition to this shift. It might also be thought that the global financial crisis is the crisis of US-style free market capitalism and one of its causes was lack of adequate regulation. But it does not follow that it has pushed politics towards the left either here in South Africa or elsewhere. State bailouts of financial institutions have revealed weaknesses in fiscal systems and the beginnings of fiscal retrenchment even before economic recovery is complete. "They are going to do what they always wanted to do – cut benefits", observed one Labour Party frontbencher when the Conservative-Liberal coalition took power. He was not mistaken.