



Policy is constraining South Africa's growth and development *Mail & Guardian article (23-30 November 2012)*

James Carville, Bill Clinton's 1992 campaign strategist, coined a phrase that remains pertinent the world over, especially in South Africa, when he said "the economy, stupid". As we now paraphrase Carville's phrase, "it is [indeed] the economy, stupid". In the case of South Africa, I insist that it is both the economy, and more fundamentally, policy, *stupid*. Census 2011 results confirm some of our worst nightmares – social and economic transformation has been slow, because of poor policies and or delayed policy reforms.

It is self-evident that to make any economy work well, we need appropriate policies for the obtaining context. The South African economy is stuck in low gear. As a result, poverty, not to mention income inequality, remain disturbingly high in a country with one of the highest income per capita for a middle-income country. Talking about poverty, we should acknowledge good news that South Africa will soon have an official poverty line: the National Planning Commission (NPC) has proposed an income poverty line of R418 – we can now have common conceptualisation and measurement of poverty in SA. With regards to income inequality, wage inequality actually accounts for the largest share of income inequality as measured by the Gini Coefficient in SA!

In the midst of numerous commentaries about the state of South Africa presently and or the state of our politics, there is merit in examining the political economy of development from a policy perspective. The various analyses by our government, especially through the NPC, and that of the African National Congress (ANC) and of course the analyses by opinion makers, analysts, academics and so on appear to evade the fundamental issue that present-day South Africa faces; weak policy (and lack of conceptual) clarity – this is different to policy coherence, policy coordination and other similar challenges confronting South Africa. By policy I mean the clarity of strategic intent of the government.

Policy involves hard choices. Policy is a combination of instruments, which may be contradictory, to pursue lasting socio-economic transformation. As such, policy is an art of navigating trade-offs and or contradictions. In policy development, there are opportunity costs. Indeed, quite correctly, as one of leading public policy scholars, Yehezkel Dror observed, policy and politics overlap. For analytical reasons, I argue, policy should be disentangled from politics and it should always take precedence – when politics flounders, as it often happens, policy should stand the test of time. In other words, or put differently, policy clarity ensures that the bureaucracy is clear about the government's strategic intent and the bureaucracy should be able to pursue that strategic intent even in the midst of political pollution.

Policy, from the context of advancing societal wellbeing, is concerned with social and economic development. The transformation of societies, essentially, requires robust social and economic policies that also talk to each other. Economic policy is concerned with economic growth and redistribution. Social policy, as Thandika Mkandawire contends, involves "collective interventions directly affecting transformation in social welfare, social institutions and social relations". Another (simpler) way of thinking about social policy is that it is about advancing wellbeing, along the lines of addressing what Amartya Sen, who was awarded the 1998 Nobel Memorial Prize in Economic Sciences, terms unfreedoms.

If these definitions hold, clearly South Africa is falling short in both economic and social policies as well as the interface between them. The economy has, since 1994, performed below its potential – we should however acknowledge that the post-apartheid economy stabilized in the mid-1990s, from its worst performance during the dying years of apartheid colonialism – shorthand for apartheid and

colonialism; indicating a continuum between the two (in essence, modern manifestations of colonialism in the 20th century). The post-apartheid economy has fallen short in redistribution in particular, especially given very high – for a middle-income country – per capita incomes. With regards to social policy, the frequency, intensity and repulsive character of public protests as well as wild cat strikes make a fundamental point that social welfare, social institutions and social relations remain poorly transformed.

The argument that policy is at the centre of development dilemmas of post-apartheid SA does not imply, or it does not intend to imply, that other challenges are not an issue. The NPC, in the proposed 2030 Vision/Plan, appeals for leadership, unity and cohesion in order that the Plan is implemented successfully. The NPC also highlights 'policy instability' as an issue that requires attention. Other analyses, be they of the ruling party or others, present a long list of issues requiring attention, especially 18 years later of the post-apartheid dispensation. Topping the list, often, are unemployment (especially youth unemployment), poverty & inequality, and education & skills.

I argue that all these challenges are a function of poor policy and or weak conceptual clarity. In other words, the so-called poor quality of education is related to policy and or lack or delayed reforms, so is high unemployment. For instance, the South African labour market suffers from policy confusion (of course among other things). Often, it is argued that the economy requires certain skills and that those (high level) skills are scarce. Policy could ensure that the skills claimed to be needed by the economy are created – graduates, who surely can learn some skills, can get in-service training. Policy should be addressing the systemic nature of the South African unemployment challenge.

It is hard to concur with the argument that poor education and or lack of skills is to blame for high youth unemployment when the economy performs at pedestrian levels. In addition, the experience that employers (including government) require from graduates is exaggerated – many of our graduates can do most public sector jobs, as an example. It appears also questionable that the skills that the economy needs are unavailable – society keeps chasing short-term 'interests' of the private sector, which change at the whims of the private sector's capitalist instincts. The scapegoat that SA's education is poor avoids confronting the real issue: the demand side of the labour market. It seems to me that almost all countries view their education systems as weak but most countries do not have painfully as high unemployment rate as ours. Besides, the education system in South Africa has always been poor – Bantu education was, arguably, worse than the post-apartheid education system but the graduates of the 1990s (who imbibed Bantu education) found jobs.

Our economy is constrained by policy paralysis, to put it differently and perhaps too simplistically. Policy has not addressed the fundamental economic challenge: the structure of the economy that can only benefit a few at the expense of the majority. The structure of the South African economy is still capital-intensive, mineral-energy laden, pro-financial and globalization biased and predominantly favouring the white minority. Any macroeconomic policy, and microeconomic policies, should be addressing this peculiarly South African conundrum. So far, only some of the aspects of the structure of the South African economy have received attention.

In the 1990s, the focus of economic policy was on the stabilization of the macroeconomy through the Growth, Employment & Redistribution (GEAR) policy. In the 2000s, economic policy reforms focused on redistribution, through the Accelerated & Shared Growth Initiative of South Africa (AsgiSA). AsgiSA was, seemingly, left hanging in about three years of its implementation and a new 'policy' was introduced; the New Growth Path (NGP). Although the economic analysis contained in the NGP is robust, the policy is not clear. Or rather, the infrastructure development programme is not policy and if it were policy focused it is unclear where would the money to finance it come from in the context of a weak global economy and worsening economic performance in SA. Besides, the main policy instrument proposed in the NGP to address unemployment – that wage settlements should be moderated – misses the point: reducing labour costs does not automatically increase employment. There are numerous determinants of employment that this narrow policy view ignores.

Because of weak policy thinking, we end up with targets that are clearly unachievable. It has always appeared obvious, barring the global economic crisis, that the jobs promised by the NGP are a pipedream. Strangely, the NPC falls into the same trap: it is hard to imagine, given unclear economic policy, that the economy can create 6 million jobs between 2020 and 2030 to reach full employment by 2030 as the NPC promises. The envisaged national consensus, as important as it is, cannot miraculously create jobs. It is policy that would create jobs by ensuring an economy that performs at

the level it should. Granted, leadership would be important especially in ensuring that chosen policies are effectively implemented.

The Achilles heel of our economy, besides policy and or compounding the policy challenge, is this notion of a *mixed economy*. It is not helpful to proclaim an economic model as simply a mixed economy – all economies, the world over, are effectively mixed economies. There is also this superfluous view of the SA economy as capitalist, as if this is unique to SA – almost all economies are capitalist. The real issue is the policy mix to achieve economic growth and redistribution. Inevitably, policy has to address the structure of the economy no matter whether our economy is mixed, capitalist or whatever. To address this issue effectively also implies that government must have a clear policy on public enterprises, including development finance institutions. The analysis contained in the 1998 *State, Property Relations and Social Transformation* discussion document should be revisited as it contains important pointers regarding the matter of the state in the economy.

Fundamentally, the role of the state in an economy should be clarified – as well as the role of other players. This is one issue that more policy thinking should go into, especially in the NPC and the ANC. China, for instance, is a particular kind of a mixed economy. Brazil, another interesting example, and India, perhaps an insightful example for South Africa, are mixed economies of particular kinds. The economies of these countries are performing far better than South Africa's in many respects. It seems to me that countries have to have a vision, at minimum, for their respective economies and have to decide on an economic model that would ensure that the vision is attained. It is in this context that I am tempted to argue that South Africa, through our government and also particularly through the ANC, gets lost in the detail as we often try to do everything all at once. We could possibly achieve more by clarifying our social policy as a start. Secondly, and more importantly, pursue the necessary economic policy reforms.

Understandably, for a country with our political history, the government tries to address multiple (policy) challenges at the same time. However, we end up achieving far less than we could potentially achieve if we focused our policies and interventions. It seems obvious, to me, that our policies and interventions can focus on the economy (and the labour market). We could aim squarely at an economy that grows substantially, an economy that redistributes wealth and an economy that creates jobs. Such an economy would require a robust industrial policy, an economic empowerment policy that works, a small and medium enterprise development policy that is effective, a trade policy that addresses unintended consequences of international trade, tax policy (and fiscal policy) that promote redistribution, monetary policy that does not punish the emerging black middle class and other microeconomic policy reforms that ensure that the economy creates value, redistributes well and ensures an efficient labour market. With regard to the labour market in particular, it might mean that government's attitude to the informal economy changes – South Africa has a strangely low informal sector, when in fact informal economy in many developing countries is a temporary cushion to hardship for many people.

We must invest more in policy thinking – ideas, especially in policy development, matter for the transformation of societies. Policy is make or break. It must be damn hard to implement an inappropriate policy. Without policy and conceptual clarity we end up with the Marikana tragedy, and there might be worse to come. The Cabinet salary freeze or any moratorium on salaries for that matter cannot be taken seriously. The recent economic discussion between government, private sector and trade unions is a step in the right direction, only if it wrestles with the complex question of the vision for our economy, especially as the state of our economy appears to be worsening, including the state of public finances. Indeed, there are obvious sacrifices that we must all make, especially our government, trade union movement and the private sector. However, that will not be enough.

It is not enough to tinker with policy challenges at the margins. To take the South African economy to the next level, policy reforms are necessary. For the South African economy to redistribute wealth effectively, policy clarity on the economic model we adapt is key. The capable state – and seemingly not a developmental state anymore – that the NPC yearns for cannot achieve much without policy and conceptual clarity. 'Writing [our] future' could prove futile if we do not have correct policies to achieve the future we write!