

## A hectic political week – but is there more than noise

The last week of October saw several political developments – the announcement by Minister Ebrahim Patel of the “New Growth Path” approved by Cabinet; the mini-budget delivered by Minister Pravin Gordhan; the cabinet reshuffle announced by pres Zuma. Where does it leave us?

### “New Growth Path” (and what could happen anyway)

The central feature of this plan is the aim to create 5 million jobs over the next ten years.

The simple truth is that if the economy grows at 3% p.a. for the next ten years and we assume a labour market coefficient of 0,66 (the rate at which the labour market grows for every one percent of economic growth) the economy will produce 2,7 million jobs over the next ten years anyway.

That will take the total number of employed people to 15,5 million people against 12,8 million currently – a growth of 21% of the number of employed people. Good for the retail sector, the tax base and social progress and development.

In real life the curve will of course not be as smooth as these numbers suggest. Economic growth comes in cycles and during the up-cycle growth could well be faster than 3% and more jobs will be created; during the down-cycle growth will be slower and retrenchments will occur. Two million jobs were created during the 2004 to '07 upswing and 1 million jobs lost in 2009 recession and slow recovery of 2010.

Can the Patel plan (including government's other big plan, the Industrial Policy Action Plan Mark 2) add an extra 2,3 million jobs to take the total to the promised 5 million new jobs?

That comes down to one very simple variable – investment. The idea is to harness the power of the state finance institutions (primarily the IDC and Development Bank) to finance investment in six identified areas, including the “Green economy”. The IDC, for example, is expected by government to invest up to R12 billion in green ventures.

### Pre-conditions

Good and well, but these plans are all heavily dependent on two pre-conditions:

- co-operation with private sector (because the state does not have enough money to do all the investment itself) and
- an efficient public sector that can do the necessary co-ordination inside the public sector and establish co-operation with the private sector.

The experience from the successful developmental states of South East Asia underlines the importance of a high quality civil service and an intimate relationship between the public and private sectors to drive development. Does such high quality and intimate relationship exist in SA? I do not think so. Thus I am sceptical of that extra 2,3 million jobs being generated.

## Unintended benefit

However, if the New Growth Path succeeds in growing the capacity of the state and establishing a better understanding between the public and private sectors it would add value. Capacity after all is not bestowed from heaven; it is slowly built up over time. A “New Growth Path” that helps to build state capacity will leave SA better off. So will and extra 200 000 or 300 000 jobs. But it will not deliver that extra 2,3 million jobs.

What is noticeable about the New Growth Path is how middle of the road it is. It contains none of the radical state interventionist proposals that Cosatu suggested in *their* new growth path document released in Sept. The union federation must be disappointed.

## Mini-budget

Their disappointment would have been intensified by Minister Pravin Gordhan’s mini-budget (or “medium term budget policy statement” as the Treasury prefers it to be called). Instead of more forex control, it was relaxed; instead of higher deficits, we got lower deficits; instead of a spending splurge there is a fair grip on expenditure; the focus on investment is maintained (everybody of course agrees with this last item).

Total public sector spending runs at 33% of GDP, the total tax take comes to 29% with a 4% deficit declining to 3% over the next few years. This is fiscal conservatism that we see in few countries today.

So the notion of a “swing to the left” can now certainly be abandoned (if ever it was really on the table). A floating exchange rate, inflation targeting, an independent Reserve Bank ... all these cornerstones of macro-economic policy have been maintained. That is not insignificant given the ferocious assaults launched on these corner stones over the last three years since Polokwane. The assaults have been seen off.

## So What?

It is clear from these two economic policy statements that there is a strong middle ground position in SA on economic policy. The outliers to this middle position are Cosatu with their state *dirigiste* approach and the libertarian free marketers. Both these outliers would want to see more of their particular agendas included in economic policy. However, that is not where the SA body politic is. It is at a much more middle of the road position. That also became apparent with the moderate thinking we saw with the new National Health proposals, as discussed in last month’s newsletter.

## Cabinet reshuffle

The reshuffle has been presented (and swallowed by many) as an attempt to improve service delivery.

It seems to me it was rather about asserting pres Zuma’s authority. He is stronger after the reshuffle than before.

- If the president can fire Genl Nyanda, a Zuma ally and powerful ANC player, then he can fire anybody. The message would not be lost on others. Cabinet ministers (and premiers and

mayors) will sleep a little less peaceful. That may or may not improve delivery, but it certainly leaves Mr Zuma stronger.

- The appointment of two former Youth League leaders as full cabinet ministers will help to isolate Mr Malema. Since the Durban conference the Youth League has not had a good time.
- Mr Zuma promoted several erstwhile Mbeki supporters. They now owe him and are likely to support him.
- Fikile Mbalula's appointment as minister of Sport may also help to bolster ANC secretary-general Gwede Mantashe's position. The Youth League wanted to replace Mr Mantashe with Mr Mbalula, but it is unlikely that he would voluntarily swap the perks and comforts of cabinet for the thankless task of secretary-general of the ANC. Mr Mantashe is a solid voice for moderation and social cohesion and seeing the Youth League's assault on him off will be good news.

The notion that this reshuffle was more about consolidating power than enhancing delivery competence is underscored by the regrettably departure of Barbara Hogan.

### So What?

Power was consolidated around the current leadership. Since the ANC's September meeting in Durban Mr Zuma's position got stronger; this reshuffle enhanced his power further. He now stands a stronger chance of getting a second term in 2014.

### Corruption

On a secondary level the dismissal of Genl Nyanda may send a message about corruption. The general has become a bit of a poster boy on the issue. By firing him, a message is sent that corruption can be a political liability. Perhaps the President felt the Cosatu anti-corruption campaign has gained traction and he must be seen to act. If so, the country owes a debt of gratitude to Cosatu.

In November another Zuma ally, Mr John Block, strongman of the ANC in the Northern Cape, was arrested by the Hawks and held in jail after bail was denied. From the comforts of a MEC to jail bird – that must have been an unpleasant experience!

Also in the first week of Nov, Mr Tony Yengeni was forced to resign directorships which he held in contravention of the Companies Act. It is his second fall from grace and could not have been pleasant either. The Yengeni story is a tribute to the forces of an open society.

It is very early days, but perhaps the impunity with which some politicians acted on corruption is being checked.

### In conclusion

The winners from the hectic October politics were moderate economic policies and Pres Zuma himself. A few high profile scalps claimed on corruption was a bonus. Enjoy the run-up to the festive season.