

## ***The ANC's Election Manifesto***

The manifesto sets five priorities for the next five years:

- Decent jobs (defined as both quantity and quality)
- Crime & corruption
- Health
- Education
- Food security, land and agrarian or rural reform

As always, however, heaven is in the principles and hell in the details. So let's try and unpack the details on "decent jobs", as these can impact on economic policy. (I will return to the other four items in the course of the year.)

### **Job Creation – continue current programs, add some stimulus**

Decent jobs are declared to be "central to the ANC government's agenda." This is clearly the first-amongst-equals priority. How does it aim to achieve "decent job creation"?

Firstly, by throwing money at it. Three programmes are listed. The current **public investment** programme (rail, ports, dams, airports, housing, energy generation, roads etc) will continue. Just short of R700bn is provided over the next three years in Treasury's budget framework.

The **public works programme** will be expanded. No specific numbers are given, but the programme has delivered one million job opportunities in the past *four* years against a target of one million over *five* years. Trevor Manuel allocated R4,1bn more for this programme starting next year, so the target can and should be lifted.

The third programme is a new idea: the ANC commits itself to an "**economic stimulus package** (which) will enable us to decisively defend our economy in the present global and domestic economic climate..." No details are given. However, the nature of any stimulus package is tax cuts (or tax refunds, unlikely in SA), infrastructure spending and some targeted, temporary spending. Given the huge amounts already being spent on infrastructure, it is unlikely that will increase much. That leaves the possibility of tax cuts, especially at the lower income levels, and potentially some spending on items like training and skills.

### **Job Creation – industrial policy**

The second way the ANC wants to create decent jobs is by putting its faith in the state. That takes us to the developmental state and its central pillar, industrial policy, which were discussed during client presentations in November. Both are highlighted in the manifesto.

The manifesto wants to allocate significant extra resources to labour intensive sectors, to vulnerable sectors like mining, clothing and textiles, to the establishment and

support of co-ops that can help with food production and so on. It also wants to launch programmes that will expand tourism, create “green jobs” and promote beneficiation. The manifesto has much to say about better co-ordination and alignment between different government entities.

All this is good and fine, but the pre-conditions for a successful industrial policy are lots of money and a technically highly competent civil service, like Singapore’s for example.

An amount of R5,6bn over five years has been budgeted by Trevor Manuel for tax incentives to support industrial policy projects. I am unsure how much industrial policy R1,1 billion a year can effect. Increasing this amount substantially, something even responsible commentators have called for, will create budget pressures.

Successful industrial policy can have huge spin offs... think Sasol. However, it can also waste a lot of money ... think SAA.

As far as civil service capacity goes, not everybody is as efficient as the Treasury or SARS or the Dept of Science & Technology.....

## **Where are the risks?**

What are the risks for the investor, especially given the widely held view that the ANC has moved to the left in this manifesto?

- Flowing from the emphasis on industrial policy, one risk is that inappropriate amounts of capital may be used to pursue industrial policy objectives without giving society a concomitant return. In a capital-scarce country with low savings, like SA, any sub-optimal use of capital is deplorable. The **test** is whether the billions poured into SAA was the optimal use of our money?
- Inflation targeting may be abandoned although I think that is very unlikely. A more realistic risk (by no means foregone) is that the system may be changed so that SARB must consider (un)employment in addition to inflation when deciding on interest rates. That will be adopting the US system of a dual mandate (inflation and jobs) against the UK and SA system of inflation only. The inflation-only system makes for more discipline, for me the critical **test**. Surely we should learn something from the recent US experience with incorrect pricing of credit, bubbles and after effects?
- Fiscal discipline may be thrown to the winds and high budget deficits practiced. What is a high deficit? Any level where government starts dissaving again, i.e. depleting the country’s savings. A low-savings country like SA, with high capital-spending ambitions (i.e. infrastructure programme), needs savings to finance its ambitions. The **test** is simply that election promises should not undermine national savings.
- On comparing the manifesto to the Medium Term Budget Framework I am under the impression that most promises have been costed or are in line with the budget statement. The exception is the proposed National Health

Insurance (NHI) discussed below. The **test** here would simply be to what extent the future politicians fit more spending into the budget framework.

- Taxes may be increased, acting as a brake on economic growth.

Over the short to medium term that risk seems low given the global crisis and the manifesto's promise of an economic stimulus package.

Over the longer term, introducing a National Health Insurance system (NHI) as pledged, will certainly require more funds. Public health provision does not come cheap. Will it be paid from the general tax base (like current health expenditure) or from dedicated taxes? A dedicated payroll tax for health seems unlikely, given the mooted social security system (see next paragraph). The **test** then will be whether the NHI can fit into the general tax base.

- Plans to introduce a contributory social security system with retirement, disability, funeral and survivors' benefits will impact on the disposable income of all wage earners. Such a system works via a deduction from wage and salary earners (hence contributory). Given that millions of voters are struggling to make ends meet, reducing wages to pay for social security will not go down too well.

This scheme was mooted by the Mbeki administration and implementation was supposed to be in 2010. It will not happen because it has turned out to be not that easy.

No surprise then that all the manifesto says is that the ANC will "establish a consensus on a future social security system". One does not want to reduce the take home pay of millions of voters without their consent.

## **BEE and Affirmative Action**

The manifesto is both clear and ambiguous on these issues. It states that these policies will be "vigorously" implemented (quite clear) but "adjust(ed) ... to ensure that they benefit more broad sections of our people, especially the workers, youth, women and people with disabilities" (less clear). No more details.

## **What did the unions get?**

The popular notion in the media is that the unions have extracted their pound of flesh, achieving significant concessions from the ANC. The details are more ambiguous.

The Manifesto does indeed promise legislation to regulate contract work, labour broking and outsourcing. Tricky area to legislate. The minister of labour has often spoken about this, and apparently he has already reached an agreement with business representatives about proposed regulation. Let 's see what materializes, but it does not look like a big deal.

Furthermore, there are pledges that unions will be helped to organise farm workers, and that the Dept of Labour will get more capacity to enforce labour legislation on farms.

On the other hand, the Manifesto states that science and math teachers will get incentives. Teacher unions (even the more sensible ones) have traditionally been, and still are, opposed to such special treatment for science and maths teachers. If special incentives are indeed implemented, it will be a major step forward for education and quite a comedown for the unions.

The Manifesto also asserts the right of the “developmental state” to have the correct numbers of civil servants with the right to redeploy or train them as needs may arise. This is not as innocent as it may seem. In the attempt to create a single, more efficient civil service the ability to move people around is critical, but many union members have been resisting that. Perhaps that is the reason for this assertion of prerogative.

If the ANC indeed implements these manifesto pledges, the unions’ pound of flesh looks more like an well-eaten bone.

### **And the SACP....?**

Likewise the SACP do not seem to do so well from the manifesto either. Well-known SACP positions are not in the manifesto. Sasol and Mittal are not to be nationalised, the Basic Income Grant is not granted, neither the 1960s thinking around prescribed assets nor around marketing councils feature, and it seems that expenditure is properly funded which flies in the face of the demand that money should just be made available.

### **So What?**

I am sceptical of the media hype, from local newspapers to the New York Times, that the ANC has shifted to the left. Nevertheless, if that is the spin the ANC puts out (apparently spokesperson Carl Niehaus said it) and it is generally accepted, fine.

Thus, I stick to the forecast made during the November presentations to clients: the broad thrust of macro policy will remain, the developmental state and industrial policy will be pushed hard, both will be subject to the savings deficit and political attention will swing from economics to social development. Enjoy the year!