Mr Zuma’s Cabinet and the Economy

Democracy meets Economic Policy-making

The new cabinet strikes a careful balance between different interest groups – also between different views on the economy. In one corner we have people like the new Minister of Economic Policy, who comes from a fairly socialist and government-centred view of the world. In the other corner are people like Trevor Manuel, who have learnt about the limitations of the state.

There will be serious debates about economic policy. It will include contestation on:

- macro economic policy (interest rates, budget balances);
- industrial policy (which industries should the state support and protect) and
- micro economics (economics of individual sectors like textile, health, automotive etc, where decisions regarding tariffs, relevant infrastructure and specific supply-side measures are important).

This is a new phase in South Africa’s democracy and will be a new experience for the country’s political economy.

When GEAR was introduced in 1996 after the currency crisis of that year, it was very much a top-down affair. The left has not forgiven Mr Mbeki for either the policy or the way it was forced upon them, and they took their revenge.

The top-down approach brought macro-economic stability in a score of countries in Latin America and even India, the world’s largest democracy, in 1991 (5 years before South Africa’s GEAR). Politics and economic policy-making do not always mix well, as we saw in the old South Africa and as we see in Latin America currently.

So what are the likely outcomes?

The high-road scenario is that the macro framework remains in place: a floating currency, budget discipline that will enhance national savings, tight focus on inflation (preferably through inflation targeting, or whatever will give the same result), and an open economy or outward-looking orientation.

The debate can then move on to questions like how to place SA on a growth path that is more labour-intensive; how best to mobilize capital to finance infrastructure development; and what are the next reforms to be undertaken to lift the growth capacity of the economy. Industrial policy and micro-economics can play a huge role in achieving these goals.

The low-road scenario is that the macro framework is jettisoned. This is unlikely, due to the cash-flow squeeze caused by the global crisis and South Africa's infrastructure programme.

A more realistic risk is that we may develop enormous confidence in the state to deliver growth and development. This takes us towards a developmental state framework - not as it was practised in the East or Latin America, but with a unique South African flavour. Will it be a market-friendly developmental state, or a statist one? The choice will determine South Africa's growth.

How much is enough?

What should the growth rate be to sustain the country's progress? As always, I like to convert it to per capita income growth, as that incorporates population growth.

Over the first 15 years of democracy, per capita incomes rose by 30%. Everything else flowed from that. Just to reiterate some of the results of that 30% rise:

- more than 4 million jobs were created, taking the percentage of the working age population who are employed from 39% to 44%. (Unemployment is not falling as much as 4 million new jobs would suggest because more young people enter the labour market looking for jobs. It is a question of demography, not failure to create jobs).
- Huge progress has been made in providing housing, water, sanitation and electricity to millions of people.

- A social security net has been established that supports close to 14 million people every month at a cost of 4,8% of GDP, whilst
- this year the public sector will invest 8% of GDP infrastructure.

(Perhaps no surprise that the ANC got the votes they did – millions of lives have changed, even if millions did not.)

To do all of this again, and do even more, would require another 30% rise in per capita incomes over the next 15 years. That in turn will require economic growth of only 2,4% p.a. That is not very demanding. South Africa should be able to achieve that. (If the figure looks low it is because South Africa's population growth rate is low.)

Up Our Game?

However, could we up our game? A difference of just 1% growth p.a., i.e. growth at 3,4% instead of 2,4% p.a., could bring about that 30% rise in ten years, not fifteen. In six years of 3,4% growth two million jobs could be added to the economy. All the benefits listed above would be reaped again, but in a shorter period. It would make a huge contribution to wiping out the developmental deficit the country suffers from.

The question is, therefore: will we plod along, or will we strive for the 6% growth that the Asgisa growth framework set as a goal? For me, that is the test of the Zuma government. We will see over the term of this parliament how things develop.