Politics and Growth

We have had Pres Zuma's inauguration speech; the new cabinet; lately bad growth numbers from the first quarter and threat that rating agencies can downgrade us because of low growth. So we can legitimately ask what politics will do for growth over the next few years.

What is needed is a "3C government"

In evaluating what politics can do for growth, I rely on the "3Cs" framework. We unpacked this during the recent client presentations around the country, but in short: we learn from the ground breaking work of the Growth Commission that one of the 6 guidelines to achieve high sustainable growth is what one can call a "3C government" – a government **C**ommitted to growth; **C**apable of delivering that growth; and enjoying **C**redibility that it has such commitment and capability. Each of the three words carries a specific meaning.

As far as **commitment** goes, the NDP sets high growth targets and government has committed itself to the Plan. More specifically, government has committed to a big infrastructure programme (actual spending last year was R253 bil or 7.4% of GDP). It has also committed to a green economy and that is beginning to take shape. From Upington in the Northern Cape to St Francis in the Eastern Cape one can see the solar and wind power investments.

Other priority areas are not showing as much progress. Mining and beneficiation is not the optimal (partly due to a lack of electricity); manufacturing still seems to be struggling; rural development has not taken off.

Pres Zuma has committed to state led economic growth. A pre-condition of that would be a **capable state** that can deliver on the growth. If I look at SAA, the SABC and some other public institutions then I really doubt if SA has sufficient human capital to effect state led growth. One also gets the impression that faction fighting determines who goes where, undermining the process of building capacity.

Lastly there is the issue of **credibility**. The trust gap between the government and the private sector in SA is wide. It will take time and huge effort to re-establish trust and re-build credibility. Actions like the set of Draft Bills affecting property rights are not going to help confidence and trust. Ditto the new BEE equity requirements which will hit many medium sized family owned businesses hard. Those families are unlikely to just cede control. Many will simply run the business down, extract the capital and close shop.

The NDP

The bottom line is that the government does not meet the 3Cs. The NDP is a brave attempt to tackle the three Cs. For example, ministers have repeatedly referred to the need to build a capable and efficient civil service and practical measures have been taken to effect that. But much remains to be done. The NDP is not a panacea, it is a long journey. By 2030 it may well have changed the landscape, but it will not help growth in the next 3 years.

How much then – a scenario

So what growth can we then realistically expect over the next few years? It really depends on two things: how bad will 2014/15 be and can growth improve from 2015/16 onwards.

2014/15 is clearly wasted between the platinum strike; rumours of more strikes to follow; electricity shortages and a sluggish Europe where the ECB has now introduced negative interest rates to avoid deflation. Expectations for SA's growth vary between 0% and 2% with some economists even predicting a recession. Let's assume 1% growth for the 2014/15 fiscal year.

Thereafter things may pick up. The platinum strike will end at some point and is unlikely to be repeated next year. Both green power and Medupi should come on stream in 2015 and that will deal with electricity shortages, alleviating a major constraint. SA's integration into Africa should have advanced further as would domestic infrastructure spend, both spurring more growth. Global growth should also have improved a bit, depending on what happens in Europe and of course China. Rising interest rates would, however, be a constraint on growth.

If, and this is purely speculative, we see a slow increase from 2015 towards 3% growth, peaking at 3.25% as the next election takes place, it could leave us with an average growth of 2.5% p.a. for the duration of this parliament. That compares to about 1.8% over the lifetime of the last Parliament. Incremental improvement. Pres Zuma can even claim that his second term was better than his first.

(All this is barring some Black Swan that could upset this scenario. If for example 2014/15 turns out to be a negative year – a recession – we will be lucky if we make 2% average over the five years.)

Look back to look forward

So what does 2.5% growth mean?

The average economic growth for the last 67 years – since we started keeping statistics – is 3.4%. If we adjust that for population growth and look at the increase in per capita income, the average increase was 1.2% a year. With 2.5% growth during the lifetime of this parliament per capita income would increase by 1.2% a year – exactly the same as for the last 67 years.

The number looks small, but reflect on it. What did SA look like 67 years ago? Is there more modernity and sophistication today than then? Has a bigger part of our population joined modernity? 1.2% a year may look small and insignificant, but they make a big difference when accumulated. Small increments become big change over time.

The narrative of slow progress is decline

That is why I cannot buy the narrative currently out there that SA is destined for failure if we just carry on developing at the same speed as the last 7 decades. The narrative is that slow progress is decline. Or in different words, as we progress we fail.

But that is not what SA history tells us. A relatively small increment – 1.2% – changed the country fundamentally over 67 years. Small increments render big results over time – as any patient investor knows.

The narrative also says if we do not grow faster there will be unrest and all kinds of outbursts. Well, in the ten years that China astonished the world with the speed of its growth and development, unrest incidents in that country increased almost 8 times. Growth does not prevent unrest. We will continue to see unrest. That does not mean progress is not occurring.

All this may very well not be good enough for the ratings agencies and SA could be downgraded. Then it will just have to pick up the pieces and carry on – and will in all likelihood achieve 1.2% again!

So after all the drama of the elections and cabinet appointments and hand wringing about growth it remains a muddle through scenario. No apocalypse, no miracle either. Just muddling along, achieving more modernity along the way.