

Coming to a standstill

It looks like it may be a hat trick, but in a negative sense.

1.5% economic growth in 2014, the same expected again for 2015 and now a growing consensus that 1.5% will again be the number for 2016. If those numbers materialise, it would mean that for three years in a row economic growth will only equal population growth, leaving no room for increases in per capita income. This would be the longest period of stagnant per capita incomes since democracy. That would also mean the single most important force for social and economic progress, rising per capita incomes, would have come to a standstill in SA.

Been here before

It is worth noting that this is not the worst in our history: during the political transition from 1990 to 1993 we had four years of declining per capita incomes; during the eighties we had declining incomes in 5 of the ten years of that decade; and in the mid-seventies we had 3 years of declining per capita incomes. We are now looking at stagnating incomes, not declining ones like then. Nevertheless, it is serious enough.

More than electricity

It is worth getting a handle on precisely what went wrong.

Last year the low growth was due to electricity and strikes – 5 months in the platinum industry and one month in the steel and engineering industry. The Reserve Bank estimated that the two strikes cost the country at least 1% to 1.5% in forfeited growth. Electricity shortages would also have extracted its pound of flesh, some speculate as much as 1% of growth. Add those numbers back and last year's 1.5% would have been substantially better.

This year electricity is still suppressing economic growth. So far strikes have been subdued, although disputes are still unresolved in the gold and coal industries. Too early to say labour unrest would not again be a factor. In addition, a new constraint has appeared ... the first serious drought in many years. It has knocked agriculture, causing that sector to decline by more than 16%, helping to hit growth for a six.

It is clear that electricity will still be a constraint in **2016**. The recent news from Eskom that the Ingula scheme would add more than 1 000MW to the grid during 2016 would certainly help in 2017, but not yet in 2016. Even if good rains return and strikes are limited, the danger now is the decline in commodity prices. This will have serious implications for our terms of trade. The lower oil price will help us, but we export more commodities than we import oil. The weak rand will help somewhat, but not fully. That largely explains why most economists have pencilled in less than 2% growth for 2016.

But there is more...

These very specific headwinds leave very little room for other mistakes. Everything else needs to go right to overcome them and register higher growth. Yet, we had a lot of other things going wrong too – a serious decline in confidence; a yawning gap between the public and private sector; a serious lack of co-ordination in critical growth sectors.

Better co-ordination is particularly important: think tourism undermined by visas; agricultural by uncertainty around land reform and water rights; mining by delayed legislation and resultant uncertainty.

Joint effort

As I wrote in last month's newsletter the low growth problem can only be overcome with a joint effort between government, business and labour. Each of these groupings can just sit and wait for the business cycle to turn, which eventually it will, but it could be a very long wait. The economy now needs a little help from its friends.

One of the recommendations of the NDP is a social compact between those three groups to put the country on a new growth path. Being the elected leaders of the country, government must take the initiative with this. An invitation to a meeting to discuss economic recovery will carry more weight coming from the President than from even the most well-respected and successful businessman.

The Steel and Mining industries are engaged in such tri-lateral discussions and although the discussions must still bear fruit, it shows that the process is possible.

An example from history could be useful. In 1933 Franklin D Roosevelt was inaugurated as president of the US. It was in the midst of the 1930s depression following the Wall Street crash of 1929. (The share market lost 80% of its value!) FDR's focus was the economy and recovery from the depression guided by a philosophy of "the moral equivalent of war". One of the first pieces of legislation he sent to Congress was the NRA – National Recovery Act. The Act aimed to get business, labour and government to agree "codes of fair practice" for each industry that "would establish production targets and set wages and prices". It also launched a public works programme and increased taxation to pay for it. The Act was received with enormous enthusiasm. It sailed through Congress in record time; business and labour leaders alike applauded it; newspapers hailed it.

Three months after FDR signed the Act, nearly *two million* people (no typing error) lined the streets of New York to celebrate the NRA complete with a Miss USA and a Miss NRA lending glamour to the procession. A ticker-tape parade, not for a triumphant sports team or pilots flying across the Atlantic for the first time, but for an *Act of Congress!!*

Yet the Act was declared invalid by the Supreme Court in 1935 (on the grounds that its delegation of power to the Executive violated the Constitution) and today the judgement of historians is that "the NRA ...(was) a sincere but ineffective effort to alleviate depression."

So what was the good of the NRA then? Well, in the three years after the Act was passed growth was 9%, 10% and 14% respectively. Unemployment decreased from 25% in 1933 to 17% in 1936. Other actions by government did more to alleviate the depression, but the NRA changed the mood, helped to establish confidence and restore energy, and so helped to change the country.

For SA not so much an act of Parliament, but a social compact of sorts between government, business and labour which can do a lot to build confidence, narrow the gap between the public and private sectors and enhance co-ordination. Call it "social capital", "building trust", "creating cohesion" – the critical economic players have to agree a way forward for the economy. The alternative is to wait for the business cycle to turn and endure stagnation for even longer. Our choice.