AFRO-PESSIMISM AND SA

30 November 1998

Why Africa failed; risk of South Africa following suit

SUMMARY

Extensive international research indicates that Africa's failures can largely be ascribed to non-functioning political systems and socialist economies. Avoid these two conditions, and one avoids the failures of Sub-Sahara Africa.

Benchmarked against these two variables, SA is progressing well towards a more open and market based economy. It is also consolidating a much more open political system.

The one characteristic SA shares with the failures in Africa is the low level of capital available for investment. This is at the heart of SA's "performance gap".

All political indications are that the low levels of investment have leapfrogged to the top of the political concerns and priorities. It will be adressed through a continuation of sound policies.

AFRICA'S FAILURES CAN BE EXPLAINED - AND CONTROLLED

The Oxford Institute for the Study of African Economies (then led by Paul Collier who is now Head of Research at the World Bank in Washington) assisted by Jan Willem Gunning at the University of Amsterdam (now in Oxford), conducted extensive research on the reasons for Africa's economic failure. The research results challenge intellectual laziness about Africa (neither colonialism nor the so-called "African mentality" explains Africa's failure), debunk myths (African workers are not that much less productive than Chinese workers) and brutally force Africans to face up to their own mistakes.

Africa's poor performance since the late 1950s can be ascribed for four main variables (see Table 1 for the detail):

Four variables explain the bulk of Africa's failures

- A higher level of risk for investors in Africa than in other continents; with **policy risk** being the most important element (more than 50% of risk is ascribed to policy - the other 50% includes crime, corruption, ethnic strife, civil wars, et al).
- **Higher transaction cost** which renders Africa uncompetitive (and debunks some myths about productivity in Africa)
- A profound **lack of capital** (70% of Sub-Sahara Africa's private wealth - land excluded - is kept offshore)
- **Dysfunctional governments** (with a low level of political rights the main source of dysfunction).

The first variables can be controlled by ***policy*** *…..*

The first three of the above variables can all be controlled by the correct **policy**. Ideal policy should aim to create an outward looking and open economy, subject to as much competition (foreign and local) as possible. This implies low tariff barriers, unhindered access for foreign and local investors, strong competition legislation, no exchange controls and strong monetary policies. It boils down to what Paul Krugman called "open economies and sound money".

There is ample evidence from a variety of African countries that the correct policies will eventually lead to a reversal of fortunes. Uganda is achieving remarkable growth rates in spite of 30% AIDS infection and a protracted civil war. Previous basket cases like Zambia and Mozambique vigorously pursued the open economy alternative, and the investment results are beginning to show.

…and appropriate ***structures***

To implement the above policies, **appropriate structures and institutional arrangements are needed. Utilities should ideally be privatised, but at least be subject to competition and the rigours of financial viability. Regulatory and operational functions should be separated and housed in separate structures (e.g. port authorities separate from port operators).**

The level of political rights in a society is not just determined by the right to vote

Appropriate **structures** (called "agencies of restraint") **raise the level of political rights** enjoyed in a society, and that helps to counter dysfunctional government. It includes a bill of rights and a constitutional court not subject to parliament; anti-corruption units; a public protector; auditor-general; independent Reserve Bank and, particularly important in Africa, a deregulated and diverse media sector.

Table 1: Reasons for Africa's failure

No	**Benchmark characteristics**	**SA:1998 vs 1988**
1.	**Higher risks faced by investors**	**Improving**
	• **Nature** (landlocked, climate, illnesses)	Unchanged
	• **Societal (**conflict, ethnic factionalism, war)	Less
	• **Econ policy (> 50%)**	Improving sharply
	a. **Inward looking vs open econ policy** open trade and financial markets labour market follows above two Unhindered foreign investment	
	b. **Free floating exchange rate**	Improving
	c. **Fiscal deficit: financing and cost thereof**	Improving
	d. **Inflation ("sound money")** Independent Reserve Bank	Improving
2.	**Higher transactions costs**	**Improving**
	• **Contract enforcement** Property rights, law of contracts, courts and legal system to enforce	Good
	• **Cost of information** Communication links and cost thereof	Improving
	• **Service delivery**	
	• **High interest rates**	Worse

	• **Crime** • **Supply of skilled labour** • **Transport infrastructure** • **Telecommunications**	Worse Improving Improving Improving
3.	**Availability of capital** • **70% of Sub-Sahara Africa's private wealth (land excluded) held outside the continent** • **capital responsible for 50% of econ growth** Q = T(k,1) with k contribution 50% of Q • **SA capital deficit** Low savings S - 1 = CAB Finds expression in BoP weaknesses	**Poor** Deteriorated
4.	**Dysfunctional government** • **Low level of political rights** Narrow lobbies dictate policy No penalty for poor performance Stimulates conflict Issues of equity and inequality not addressed • **Ethnically diverse societies** The more diverse, the less conflict-prone Poverty bigger cause of ethnic conflict • **Open society dynamics** "Agencies of restraint": Bill of Rights, PP, AG press and media diversity and independence strong NGO sector business and trade unions	**Improving** Improving Improving Improving
	Checklist for SA These four variables can be used as benchmark criteria against which to measure SA's own movement towards or away from an African destiny.	

APPLICATION TO SA

Are the above benchmarks applicable to SA? SA's growth performance over the last half a century displays three distinct cycles (Table 2). These cycles fit the four variables that determined Africa's failure almost perfectly (Table 3).

	Table 2: SA's growth performance			
			Ave growth rate	**Ave gold price**
Three distinct cycles of a 48 year period	Average growth rate p.a. 1950 - 1997	(48 years)	3.5%	
	Average growth rate p.a. 1950 - 1975	(26 years)	4.83%	\$35/\$49
	Average growth rate p.a. 1976 to 1992	(17 years)	1.64%	\$357
	Average growth rate p.a. during current cycle 1993 to 1997	(5 years)	2.46%	\$369
	Per capita income rose from 1953 to 1975	Cum p.a. Tot period	1.88% 53.76%	
	Per capita income declined from 1976 to 1992	Cum p.a. Tot period	-0.17% -2.90%	
	Per capita income rose from 1993 to 1997	Cum p.a. Tot period	0.08% 0.41%	

The three cycles experienced during the 48 years are:

- 1950 - 1975 = the boom period of **consistent growth** and rising per capita income;

- 1976 - 1992 = the period of **sharply lower growth** and declining per capita income (in spite of a ten times increase in the gold price!!!!!)

- 1993 - 1997 = **consistent recover,** (the longest consecutive growth cycle since the late 1970s), and the **decline in per capita income stopped but not yet reversed.** These modest achievements have of course been snuffed out by the 1997/98 international crises.

The three cycles correspond quite nearly with the degree to which SA met and did not meet the benchmark criteria.

	Table 3: SA's growth performance and benchmark characteristics			
			Ave growth rate	**Ave gold price**
The three cycles fit political conditions almost perfectly	Average growth rate p.a. 1950 - 1997	(48 years)	3.50%	
	Average growth rate p.a. 1950 - 1975	(26 years)	4.83%	\$35
	Period characterised by opening economy & policy stability; low transaction costs; investment & savings; and partly functional government.			
	Average growth rate p.a. 1976 - 1992	(17 years)	1.64%	\$357
	Period characterised by siege/closed economy & policy instability; rising transaction costs; lower investment & savings; and dysfunctional government.			
	Average growth rate p.a. during current cycle	(5 years)	2.46%	\$369
	Period characterised by economy opening up; policy stability; declining transaction costs; lower investment & savings; and more functional government.			

The **conclusion** from the above table is both convincing and unsurprising:

- the more SA met the political and economic benchmarks, the higher the growth in the economy
- regarding economic policy and political structure SA was much closer to the "African Way" during the period 1976 to 1992 than presently. Current policies and political structures show much less correlation with Africa and are now distinctly less "African" than they used to be.

WHERE IS SA HEADING ON THE FOUR RISK AREAS?

Thrust of GEAR is secure

1. **Policy risks** have been minimised considerably through the GEAR policy framework and government's consistent adherence to it. Since July 1998 Govt has taken an increasingly tough line with its alliance partners on GEAR. It culminated with the resistance to Cosatu demands at the Job Summit.

   Move towards open economy is decisive

   Policy is reinforced by the consistent move towards a more open economy; both the goods and financial markets are opening up. Tariff barriers are now 55% lower than in 1994. Import penetration rose from 25% to 43% over the five years to 1997. This caused severe problems in the current account balance, increased unemployment and put many enterprises out of business.

   Yet, in spite of the pain, govt is not reversing. The Mbeki / Manuel/ Erwin troika will ensure that the current policy thrust is continued.

What remains to be done?

.. exchange control

- The abolition of **foreign exchange** control, with specifically more clarity on the conditions that need to be met and a clear timetable.

.. labour market

- A more even-handed **labour market** needs to be created. Unemployment and more openness in the other two markets (goods and services and financial market) will force changes in the labour market

.. crime and corruption

- Although not part of policy as such, the risks association with **crime** and **corruption** are still too high. Dep. Pres Mbeki will hve to prove that his landmark November 10 speech on corruption is translated into action.

More open economy is driving transaction costs down

2. **Transaction costs** are being driven down by increasing competition and deregulation. Lower tariffs have brought more competition. Deregulation abolished price fixing powers in the agricultural sector; brought down the cost of air travel and road transport; and is about to change the face of metro passenger transport. The restructuring of Portnet will reduce costs for importers and exporters. Privatisation at Telkom and the airports is improving efficiencies and the infrastructure in those sectors. Planned privatisation is driving a turnaround at SAA.

What remains to be done?

.. tempo

- The **tempo** of privatisation needs to speed up. The indications are positive for 1999: SA could see more transactions in 1999 than in the first five years of the Mandela administration.

.. public/private partnerships

- More **PPPs** (public and private sector partnerships) are needed, especially at local govt level. That will enhance efficiencies at the third tier of govt and help counter some of the current decline.

.. interest rates

- The one transaction cost that is a major problem, is the current level of **interest rates**. That is caused by the savings-investment gap discussed in the next paragraph.

.. Mobilising capital is the key

3. The **shortage of capital** is a major problem. SA saves about 15% of GDP. That is not even enough to cover the current (low) levels of investment, which hovers around 16.7%. The resultant deficit of 1.7% of GDP finds expression in the negative current account balance. It is in many ways SA's Achilles heel. The 15% savings is also 15% less than the 30% of GDP that needs to be invested to finance a growth rate of 6% (See Tales 4 and 5).

What remains to be done?

- Govt deficit must be reduced further to reduce dissaving and thus increase the savings level.

- More effort is needed to attract foreign capital, in the short term primarily through privatisation to strategic (foreign) equity partners.

Dysfunctional govt means ..

4. The root cause of **dysfunctional government** is the low level of political rights in a community. A low level of political rights has three negative effects.

.. unrest and civil war

Firstly, it breeds unrest which may lead to civil war, ethnic tension and general violence. Lesotho and the DRC conflict are excellent examples. Both countries could be considerably more peaceful if their citizens enjoyed a higher level of political rights. SA's own past also proves this truth.

.. narrow lobbies dictate bad policies

Secondly, it leads to a situation where narrow lobbies have excessive influence over policy (vide farmers under NP rule and securocrats under P W Botha's rule). Many of Kader Asmal's water reforms were first proposed by a commission of enquiry in 1971! The political influence of the farmers, however, prevented implementation then.

.. no penalty for poor performance

Thirdly, a low level of political rights results in govts not paying a penalty for poor performance (e.g. crime in the SA townships in the 1980s which did not lead to a penalty for the political rulers of the day).

Trend

SA infinitely better off

It is clear that post-1994 SA has taken a major step away from the above condition. A high-level of political rights have not only led to Black rule, but it has also created a more open society. The new constitution created a host of "agencies of restraint" like the Bill of Rights, a Public Protector, decentralised levels of political power (which creates enormous capacity problems in the provinces and local governments but is good for open society dynamics). The media has been deregulated. A much stronger civil society has developed.

Implication

The more open, the less corruption

The South American experience is instructive: the more open the society (i.e. the economy and political system), the more corruption declines. A consistent drive to an open economy (policy) and open political system (structure) will in due course lead to a more functional government.

What remains to be done?

.. need a two party state

- The missing element is a credible **two-party state:** a real challenge to the ruling party from an opposition which can mobilise significant opposition. The space to watch is the area to the left of the ANC. Currently, all parties in parliament (with the exception of the PAC) find themselves to the right of the ANC.There is a vacuum on the left. A leftish workers' party can fill the gap. Such a party could develop during the lifetime of the next Parliament.

- A credible leftish party will be good for democracy, but may lead to some policy angst: fears of populism, fears of the Winnie-factor, socialist rhetoric, etc. The benefits will be political attacks on corruption, poor government performance (e.g. crime and education) and unemployment.

.. and more capacity

- Old-fashioned **management competency** (fill the potholes, fix the streetlights, deliver the schoolbooks and process the ID applications) is not what it should be. Achieving that requires a combination of experience, appropriate structures (outsourcing and privatisation), proper budget and other procedures and a bit of fear that one may lose the support of those on whom you depend.

Conclusions

- In three of the four risk areas SA is moving away from, rather than closer to, the African experience.

- The fourth area is SA's Achilles heel: the lack of capital. This hampers private investment, growth and job creation and is the root cause for the "performance gap" which constitute the country's main risks.

- The correct policies are being pursued, the missing element is the speed and tempo of policy implementation.

SA's " performance gap" - post census

The last census figures indicate just how many new jobs need to be created every year just to accommodate the flood of new job seekers - about 560 000 p.a.

The census data changed the parameters considerably

A study by the Dept of Trade and Industry suggests that a growth rate of about 4.6% p.a. *if the growth is concentrated in the service sectors,* can create about 427 000 jobs p.a. That implies that a growth rate of about 6.67% p.a. is needed to clear the labour market. Such a growth rate will require an investment level of between 25% and 30% of GDP.

Table 4 summarises the gap.

TABLE 4: Performance gaps - post census

	% gdp		Current	Want to be	GAP
Investment			15.90%	30%	-14.10%
Savings			14,49%	30%	-15.60%
Growth rate		Cur cycle	2.50%	6.60%	-4.10%
		1998	0.50%		-6.10%
Jobs	(% created p.a.)		0.60%	4.10%	-4.70%

The conclusion is clear:

- A quantum leap is needed from a 2.46% economy to a 6.6% economy.
- Even if the 6.6% growth is based on a labour intensive and low capital base strategy, investment will still have to increase considerably. And that brings us to the real risk facing the economy and investors.

SA's shortfall is invesment

The real risk for financial market investors

The major risk that can push SA towards a stereotype African destiny is the low levels of investment. It is way below what is needed to meet socio-economic needs, and also way down on the historic level of investment enjoyed in the economy. An analysis of the investment levels over the last half a century is self-explanatory.

Table 5: SA's investment performance over 48 years

	Investment as % of GPD (ave p.a. over cycle)	GDP growth
Cycle from 1950 - 1975	23.06%	4.83%
Cycle from 1976 to 1992	23.5%	1.64%
Cycle from 1994 to 1997	16.62%	2.46%

From the above table three conclusions are crystal clear.

Investment must also be efficient

Firstly, it is clear that investment on its own is not sufficient. The efficiency of investment also counts. A closed economy operating under conditions of siege can consume a lot of capital, and yet, it will not necessarily produce the growth needed.

This is exactly in line with the experience of the South East Asian economies. As early as 1993, Paul Krugman warned that South East Asia's growth was based merely on capital formation, and not on improvements in efficiency. He referred to the East Asian tigers as "paper tigers". At the time bold and provocactive stuff!! By the end of 1997, Krugman was proven spectacularly right.

Secondly, even with a more competitive and efficient economy, high levels of growth cannot be achieved unless it is accompanied by higher levels of investment.

Investment now most urgent priority

Thirdly, the policy priority for the Govt is to harness much more investment, especially foreign direct investment which can help to close the domestic saving-investment gap.

Will the political process deliver?

I have no doubt a Mbeki administration will push for sound policies and through that more investment and growth. The evidence is the following:

- In November last year, in our forecast of what we can expect from Mbeki as leader of the ANC, we stated that his policies will be built around two cornerstones: transformation and sound economic policies. Both strands became abundantly clear during the last 12 months: Mboweni to the Reserve Bank; more Blacks replacing Whites in senior govt positions; no bucking under the international financial crises; public repudiation of Cosatu/SACP, the teachers and civil servants who are corrupt and want higher increases. These strands are unlikely to change once is the de jure president.

- In the many discussions leading to the Job Summit, it became clear that govt ministers are extremely worried about the low level of investment in the country. It has slowly crept up to being one of the major economic policy priorities. It partly explains the R29.6 billion arms deal. The deal is probably not a very effective way of dealing with the investment deficit, but from a political point of view it is notable that investment was one of the main motivations.

- There is no doubt that government is feeling the heat of rising unemployment. In democratic countries high levels of unemployment topples governments and low levels keep others in power (Clinton in the US). Rising unemployment is a real force the ANC has to reckon with. It realises it only has one more term to deal with it - by 2004 the political landscape will be different.

- The only real option open to govt is to pursue the policy thrusts underlying GEAR: an open and more economy, sound money and as governor-in-waiting Tito Mboweni put it: "boring economic growth".

- The troika of Mbeki / Manuel / Erwin is firmly in control of economic policy. And Mbeki is firmly in control of a traditionally centralised party. Recent decisions to appoint from the centre provincial premiers as well as all candidates for the ANC's election lists (except the top 25%) centralises power in the party even more - under firm control of Mbeki and his men! (It is bad for internal democracy in the party, but great for policy stability).

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AFRO-PESSIMISM AND SA

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Zimbabwe's man-made disaster

Modern Zimbabwe is an example of a society that went wrong because of a government that pursued lousy economic policies. After independence, the country enjoyed solid economic growth, political stability and improved social services. Its growth rate outstripped SA's and its stock exchange outperformed the JSE.

Matters started going awry when President Robert Mugabe's government effectively nationalised most of the country's free press through a media trust. Though such measures did not immediately translate into economic stagnation, they helped turn Zimbabwe into a closed society. And closed societies are not economically successful in the long run.

Further deterioration followed the Mugabe government's refusal to enact the economic transformation demanded by a post-Cold War globalised world. Price controls in critical parts of the economy distorted the production and distribution of essential goods; government failed to curtail its own expenditure (partly because it spent so much money on patronage); it printed money (to the extent that the central bank has been referred to as "Bob's Takeaway"); and now excessive inflation reigns, in turn wreaking more havoc on the economy.

Clumsy attempts to bolster the currency through control measures are bound to backfire through a sharp currency adjustment, critical shortages or both.

The problems were all self-imposed. Countries like Botswana which did not follow such policies enjoyed much better economic performances.

The lesson from Zimbabwe is powerful: It is not pre-ordained that things will go wrong because we are in Africa; rather, policy decisions, particularly those affecting economics, determine success.

SA has had its share of stupid decisions which brought economic misery and declining living standards ….. P W Botha's term in office is a case in point. Thus SA can be depressed by and relieved at the developments in Zimbabwe – depressed because the economy of an important neighbour and trading partner is deteriorating sharply, relieved because SA's political system and economic policies are diametrically opposed to Zimbabwe's.

That fact offers, at the least, the opportunity of a different future. Yet SA must be neither complacent nor arrogant. Many countries with a great future ahead of them failed to realise their potential: Tanzania and Kenya in Africa, Brazil in South American and India in the East.

SA could slide similarly. Unemployment, corruption and Aids are formidable forces that could conspire to wreck our future.

Exceptional vigilance, a renewed commitment to economic growth and the determination to maintain an open society are essential.

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AFROPESSIMISM AND SA

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Zimbabwe's lessons for SA

The still rising threat of severe political and economic collapse in Zimbabwe – it is an ominously long way down that road already - has the potential to affect not only the people in that country but also the wider southern African region and probably most of the continent.

What makes this looming tragedy even worse is that, quite unlike the catastrophe of the floods in Mozambique which have taken such a cruel toll on a nation that has progressed so well in the past decade, Zimbabwe's misfortunes are overwhelmingly self-inflicted. Or, to be precise, they are the consequences of the follies of its vain, deluded leader, Robert Mugabe, and the greedy ruling clique around him who have prospered so mightily while the masses have suffered so much.

It's quite wrong, however, to assume that Zimbabwe has been on the skids right from the formal ending of white minority rule in 1980. It has not.

In the Eighties, the economy achieved good and tolerably soundly based growth. But Mugabe and his inner circle of power have proved unable to meet the challenges of recent years – and unwilling to let go of their richly privileged positions.

Though SA must guard against complacency, the evidence to date indicates a profound difference between the evolution of democracy in this country and the experience of Zimbabwe, for all the integrity shown by much of the judiciary and a few brave journalists there.

Former President Nelson Mandela, in spite of the aura of admiration he attracted globally, never imposed a personality cult on SA. Nor is that the style of his successor, Thabo Mbeki.

Granted, corruption is widespread in SA. But the various mechanisms, checks and balances of the Constitution, the parliamentary systems, the Bill of Rights, the rule of law and the separation of powers are building a deep-rooted democracy in SA.

Moreover, SA has enjoyed top quality economic management in terms of fiscal and monetary policies, though over-regulated labour markets and a dismally over-cautious approach to privatisation have cost us dearly.

The crucial point is that SA and Zimbabwe are vastly different countries. There is no justification for SA to have to suffer any kind of backlash of "Africa fatigue" because of the wretched situation north of the Limpopo.

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Zimbabwe: some distance please

In dealing with the man-made crisis in Zimbabwe, SA has to date applied a policy of behind-the-scenes diplomacy and developing a common approach among southern African nations. This is the most feasible option open to Government and should be pursued as best it can.

In the past week, however, conditions in Zimbabwe have deteriorated to such an extent that the interests of SA, and those of the sub-continent, now require that Government put some distance between this country and Zimbabwe.

Mugabe has intensified the campaign of intimidation of opponents. Official intimidation is now so severe that normal political activity is simply not possible. The police have used draconian powers to suppress legitimate political activity; Mugabe's officials have clamped down on the press; his ministers have announced plans to legalise the land grab; and his government continues to ignore the courts and to undermine the rule of law.

Enough evidence has emerged to confirm that Mugabe's regime engineered the land grab for party political reasons. It is all about the coming election and retaining political power, not redistribution to the poor. It is a ruthless, cold-blooded manipulation of poverty for the sake of power.

Mugabe is guilty of gross human rights violations and spectacular economic mismanagement. And all of this is playing itself out on the world's television screens.

SA and the greater subcontinent are being tainted with the Mugabe brush, undermining the twin goals of regional growth and job creation.

It is time to distance the subcontinent from Mugabe. Government must maintain its behind-the-scenes diplomacy but ministers should also publicly articulate the principles SA as a country is standing for.

Thus the need for land reform must be stressed but in the context of respect for life and property rights. International support for land reform can be sought but with the need for sound economic management emphasised. The need for the rule of law must be reiterated and the right to free political activity endorsed.

Deputy President Jacob Zuma has articulated some of these issues but in the most muted terms. President Thabo Mbeki has publicly expressed solidarity on the issue of land reform. He should now augment that with a clear statement of the above principles. And his ministers should join him.

SA deserves better than being tainted with the Mugabe brush. Its economic management is infinitely superior to Zimbabwe's, its redistribution policies more finely balanced and its fiscal and monetary policies incomparably more disciplined.

One is judged by the company one keeps. The more Mugabe becomes an outcast, the more the world must see the difference between him and the rest of the subcontinent. SA's Government must create that distance.

And all the more so since Mugabe may still win the polls up north.

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AFRO-PESSIMISM AND SA

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***The Spectator*'s blinkered view of SA**

The lessons worldwide are unambiguous: open economies generate growth and rising wealth, closed economies lead to poverty; open societies can re-examine themselves and keep on improving, closed societies stagnate.

***The Spectator* in London recently published an editorial on SA under the title "SA is next". The editorial is long on opinion and short on fact. It requires a response. Copyright agreements prohibit us from publishing the editorial either in full or in part**.

Central to *The Spectator's* view is the argument "where Zimbabwe goes today, SA is likely to go tomorrow". Really?

After Zimbabwe's independence in 1980, most of the free press in that country was effectively nationalised by transferring ownership to a State controlled Trust. Soon after the 1994 election in SA, the airwaves in SA were deregulated and a number of private radio stations came into existence. In addition, commercially viable state radio stations were privatised. A privately owned free-to-air television station was licenced.

As a result, the press became stronger, freer and more independent. The genie was let out of the bottle. The contrast with Zimbabwe can be no greater.

The comparison on media also extends to matters economic. President Robert Mugabe maintained the closed and regulated economy he inherited from Ian Smith. On top of that, bad policies were pursued. Petrol prices were subsidised, though they should have doubled; the central bank printed money (to the extent that locals referred to the central bank as "Bob's take-away), State spending soared, resulting in ever bigger budget deficits. The chickens cam home to roost, and the annual inflation rate is now over 60%.

In SA, the economy was opened to global competition subsidies, and protection for business were cut. About 500 000 people - most of them ANC supporters - lost their jobs. But companies became more efficient, productivity improved and moribund industries such as car manufacturing and agriculture were revitalised.

The Budget deficit was considerably more than halved to 2.5% of GDP. Core inflation fell from double digits to 8%. Again, the contrast with Zimbabwe cannot be larger.

Mugabe used the civil service as a dumping ground for his cronies. In SA, in spite of the pain of half a million jobs lost, the public service was not used for job creation. The service is now 14% smaller than it was in 1994 - and that was achieved in spite of the large-scale appointment of blacks.

The Spectator is clearly talking rubbish. Instead of spouting gin-and-tonic opinions, it should do some hard thinking.

Another issue it raised is that "eventually the ANC *will* (our emphasis) find it expedient to follow Mugabe's policies". My, my ….. such certainty about the future. Not might or could but *will.* Let's test it.

The ANC Government is carrying out the most ambitious privatisation programme in SA's history. Too slow for many, including this magazine, but more than ever. The previous bout of privatisation saw the sale of Iscor and Sasol under the tenure of P W Botha. Now the four largest public corporations are on the block; the largest city in the country is outsourcing, commercialising and privatising 60% of its functions. Airports look better than ever because they have been partly privatised, and private capital finances airport investments.

Black empowerment groups receive quite a large slice of this action. The President declares in a prepared public speech that SA is poised to become a capitalist society. The only issue is to what extent black capitalists can share in the economy.

Does this background and philosophy sound like a government on its way to nationalise, as *The Spectator* says it *will?* We think not. As for the possibility that the masses may rise and force the ANC to plunge the country into chaos, consider the following:

During the almost two decades between 1975 and 1992, SA's economy grew at a consistent rate of about 1.7%. Population growth exceeded 2%. Thus per capital incomes declined and the country at large got poorer.

From 1993 to 1997, economic growth recovered to about 2.5%.

It was set for 3% but the international financial crises - which most observers agreed SA survived much better than most other developing countries - cut that short. SA is now again on course for a 3%-plus growth rate - while the population growth has slowed to below 2%.

That leaves a margin of 1% - 1.5% to improve living standards. If that sounds insignificant, the US and UK built some of the highest living standards by maintaining per capita growth rates of 1% - 2% over the last 150years. It is not the margin that counts but the consistency with which it is maintained.

Nothing in life is certain. However, if the economy grows at 3% - 4% and the population at about 2%, living standards must rise and SA will become more prosperous.

The lessons worldwide are unambiguous: open economies generate growth and rising wealth, closed economies lead to poverty; open societies can re-examine themselves and keep on improving, closed societies stagnate. Zimbabwe made a fundamental choice for a closed society and economy: SA opted for an open society and economy. That creates a different picture from *The Spectator's* unmotivated and irrational fears. Time to take off the dark glasses, *Spectator!*

J P Landman

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AFRO-PESSIMISM AND SA

19 May 2000

Beyond Zimbabwe's turmoil

Perceptions and emotions about Zimbabwe dominate the investment and business scene in SA. The situation could easily foster pessimism, and pessimists don't make money!

It would be appropriate to note a number of structural changes under way in SA that could have a positive effect on the business environment. In the past week government started its wage negotiations with the public service unions. Among other things, Government has proposed a new retrenchment policy to make it cheaper to reduce the number of public servants. The door has been opened for a smaller and cheaper civil service. Salaries are the biggest single expenditure item in the national Budget. If this could be contained, fiscal discipline would be easier to maintain and pressure on interest rates would be relieved.

Last Friday the first cross-border nature reserve between SA and a neighbouring state (the Kgalagadi, between SA and Botswana) was officially opened. This and the other seven parks being developed have the potential to become SA's new "gold-mine" industry.

The projects are well under way, with the full backing of President Thabo Mbeki, the energetic commitment of Environmental and Tourism Minister Mohammed Valli Moosa and the silent collaboration of Anton Rupert. If all goes well, tourism could boost SA's economy by 2% n year in the next decade. Compare this with SA's average growth of less than 2.5% for the past 25 years.

The third positive event was Cabinet's approval of the principles in terms of which partnerships between the State and the private sector are permissible for the outsourcing of services traditionally supplied by Government.

One example is the construction of two prisons by the private sector. Prisons cost the State R85/day/person. By paying this or a lesser amount to outside contractors, the cost to the State remains the same and prisons can be operated more efficiently.

Water supply, sewerage and most traditional municipal services may also be better managed in this way.

A special unit has been established within the Finance Department to support this initiative, regulations have been published in the *Government Gazette,* and departments have the full support of Cabinet to subcontract these services to the private sector, within the guidelines.

This would irreversibly change the face of SA's public service. It would also spread the private sector's culture of discipline and efficiency across a broad front.

Finally there are solid prospects for economic growth. Since 1975, SA has not had a continuous growth rate above 2.5%. For most of the Seventies and Eighties, it was 1.64%. It reached 2.5% between 1993 and 1997. Now, for the first time in a quarter-century, our economy has the prospect of growing at a sustainable 3%. It's not enough, but it is much better than before. It is also more than the 2% at which the population is expanding.

Pessimism is understandable in the light of Zimbabwe's mismanagement. But it should not blind us to the power of positive change in SA. There are opportunities for entrepreneurs who can see beyond the present confusion.

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