GOING FOR GROWTH

Submission by the Institute of Race Relations (IRR) on:

Economic transformation, inclusive growth and competitiveness: Towards an Economic Strategy for South Africa

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South African Institute of Race Relations

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Introduction

The above document was published by the National Treasury in the last week of August 2019. Apart from those with their heads in the sand, all will agree with its statement that "South Africa's current economic trajectory is unsustainable". Nor is there any need to repeat the document's description of some (though by no means all) of the major problems facing the economy. These will be dealt with in the present submission only where necessary to illustrate a point.

The Treasury document lists a number of reforms that should be urgently implemented to boost growth in the short term. However, it adds, conditions must also be created for "higher long-term sustainable growth". These should promote economic transformation and labour-intensive growth. They should also create a globally competitive economy.

The "fundamental building blocks" of long-term sustainable growth are listed as including:

= improving education, especially early childhood development

= implementing youth employment interventions, including learnerships and apprenticeships

= expanding public transport, and prioritising urban development to overcome spatial legacies

= addressing the skills constraint, via easing immigration regulations and long-term educational reforms

= developing a capable state supported by a new social compact, and

= maintaining a stable macroeconomic framework.

The "growth reform agenda" includes five themes:

= modernising network industries

= lowering barriers to entry and addressing distorted patterns of ownership

= prioritising labour-intensive growth

= implementing flexible industrial and trade policy, and

= promoting export competitiveness.

These interventions are said to be "realistically executable in the medium term".

The Treasury document (the document) is long winded, needlessly repetitive, and poorly structured. It nevertheless contains important suggestions. This submission will draw out some of the key arguments put forward. It will also examine contradictions and omissions, before making an assessment and identifying risks. IRR comments appear in italics.

Main thrust

According to the Treasury document, concurrent emphasis on economic transformation, inclusive growth, and competitiveness should be at the "heart" of economic policy. This is the best way of tackling unemployment, poverty, and inequality. Whereas "structural transformation" means the reallocation of economic activity from low-productivity to high-productivity sectors, the document pays more attention to "economic transformation". This means "rapid and fundamental change in...ownership and control of the economy".

Notwithstanding that, "the starting point should be an economy that grows", not one limited by "a deterioration in investor confidence compounded by political and policy uncertainty". Nor must economic transformation and inclusive growth be allowed to "compromise the long-term competitiveness of a small open economy that needs to sell goods and services to the rest of the world and attract investment". Prioritising local procurement is not much help if local industries cannot supply products at the same price as their international counterparts. Economic policy needs to make trade-offs and take account of unintended consequences.

Although there is no mention of black economic empowerment (BEE), the document genuflects in that direction. Its reference to "rapid and fundamental change in ownership and control" is reminiscent of the notion of "radical economic transformation" and the ideology of the "national democratic revolution". The document also says that the benefits of growth must be shared broadly and include a reduction in inequality – although it rightly stresses that "the starting point" must be an economy that grows. Even though the document makes some highly questionable assumptions, such as that "economic transformation promotes inclusive and sustainable growth", it makes no proposals to speed up transformation with a racial focus. Its focus instead is on the series of "growth reforms" upon which the government must embark to raise the country's growth potential.

Long-run growth

<u>Education.</u> "Outcomes" must be improved. There must be a strong emphasis on early childhood development, along with a comprehensive reading plan for primary school learners.

Nothing wrong with these ideas, which are not new. Early childhood development is something that could be implemented without militant unions getting control. But, of course, whether in the short or the long run, fixing education in South Africa is impossible without confronting the unions. Wisely, no doubt, the Treasury document steers clear of this issue as it is a political rather than an economic reform.

<u>Youth employment</u>. "Interventions" include apprenticeships, and continued support for the employment tax incentive and learnerships. Training of youth is unlikely to yield a dividend unless the youth are absorbed by labour markets. Interventions should ensure that firms are not "biased" towards capital in their investments in productive capacity.

Interventions in the form of statutory minimum wages are detrimental to the absorption of youth into jobs. So is the bias towards labour in South Africa's industrial relations system. As we shall see below, the Treasury document proposes relaxations of some minimum wage provisions. It has nothing to say on the defects in the industrial relations system.

<u>Sustainable cities and inclusive transport systems.</u> The Treasury document says that the lowest wage earners spend around 40% of their income on transport. The document also

says that around 70% of "discouraged" jobseekers cite their location as the key constraint to looking for a job.

That the lowest wage earners have to spend 40% of their income on transport is a shockingly high figure. That 70% of "discouraged" jobseekers cite their location as the key constraint to looking for a job is further evidence of the very high transport costs that poor people in South Africa face – and an indictment of the fact that the government squanders vast amounts of money on subsidising the air travel of much richer people (see below).

On housing, the document says that resale markets in social housing must be encouraged, the provision of title deeds accelerated, and better ways found to "leverage" private sector finance for low-income housing developments.

<u>The skills constraint</u>. The document says that the clearest evidence of South Africa's "severely skills-constrained economy" is the "dramatic" rise in the wages of skilled workers, defined as those with a tertiary education. It cites research showing that the wage premium for highly skilled labour has almost doubled since 1994, and that "wage inequality" is "vastly more dramatic" than in the United States.

There is no mention of race in this account of inequality. Apart from "long-term educational reforms", the solution put forward for the skills constraint is the easing of "immigration regulations for individuals with tertiary qualifications from accredited institutions". This seems rather niggardly. It also leaves officials of the Department of Home Affairs with too much discretion. Would-be employers are better equipped than officials to decide on whether or not immigrants have the qualifications they require.

<u>Economic institutions</u>. The document refers to "a wealth of evidence" to the effect that economic institutions explain cross-country differences in income levels and growth. Under this heading it lists security of property rights, market structure, barriers to entry, and contractual arrangements and enforcement. These influence investment, as well as the incentive to innovate and develop new technology. Economic institutions that support growth require a capable state as well as a functional relationship between the public and private sectors.

A "new compact" is required between the government, the private sector, and other social partners to overcome the "deep distrust" that exists. The private sector must seek government policies that are "unambiguously in the public interest" and avoid making demands that are "greedy and purely in their own narrow self-interest". The government for its part must strengthen the public sector and ensure enough policy certainty "to ensure the economy is able to attract productive foreign and domestic investment that is urgently needed to enhance potential growth".

There is indeed a "wealth of evidence" to explain differing growth performances. Not only the institutions mentioned, but economic liberalisation is a key component of all such evidence. As we shall see below, a number of liberalising proposals are an important feature of the Treasury document. But the notion of a "social compact" to overcome "distrust" is misplaced. The government has an overriding duty to fix the public sector without any such compact. As for business, it will always act in what it regards as its own self-interest. The way to ensure that this is not damaging to the public interest is to ensure that particular lobbies cannot capture control of regulatory agencies. The way to counteract corporate "greed" (presumably in the form of supposedly excessive remuneration) is via "naming and shaming" in the media rather *than government interference. "Greed" in the form of excess profits can be dealt with by promoting competition and lowering barriers to market entry by rival firms.*

Stable macroeconomic policy. This is a necessary condition for sustainable economic growth. It is also "critical to ensure that we are able to attract foreign savings to fund investment and growth". The major components of stable policy are listed as fiscal sustainability, a flexible exchange rate, and credible inflation targeting.

A necessary restatement of the obvious. There is no call for fiscal stimulus or cuts in interest rates. And of course introduction of the national health insurance system is likely to destabilise public finance.

Key growth reforms

The Treasury document points out that energy, telecommunications, transport, and water "are the foundations upon which long-term inclusive growth must be built". It says that South Africa cannot fully address the productivity benefits arising from these facilities because of the absence of efficient economic regulation, backlogs in infrastructure investment and maintenance, lack of access to quality services, and poorly managed state-owned companies with severe governance challenges that pose a significant burden on the fiscus.

This of course is true, but a substantial understatement of the problem. However, the main purpose of this submission is not to correct this understatement so much as to evaluate the proposed solutions. Aspects of the wider problems will be cited only where necessary to evaluate the solution put forward.

Electricity. The current business model is "unsustainable". Continuing with it "will lead to excess capacity, higher electricity prices and falling relative costs of off-grid technologies which will result in a vicious cycle of rising electricity prices. Eskom will have to share the costs of electricity generation among a declining pool of customers as more and more move off grid as tariffs rise."

Among the alternative models being explored is the separation out of generation assets, while creating a state-owned transmission company to buy electricity transparently from independent power producers (IPPs) and state-owned power generators. Stalled discussions around the establishment of an independent systems market operator (ISMO) should be revived. Also, the government "could take a decision that Eskom should sell coal-fired power stations, possibly through a series of auctions" (which would raise around R450 billion). The new power station owners would sign power-purchase agreements with Eskom.

The separate transmission company needs to be established forthwith. Leaving aside the question of how much revenue would be raised, auctioning off the coal-fired power stations would be an important step forward. Limitations should be placed on the number of power stations each would-be purchaser can buy so that various suppliers can compete with one another, whether coal, solar, wind, gas, or water. Private investors willing to build nuclear power stations at their own risk and sell to the grid should not be excluded.

The Treasury document also proposes that consideration be given to allowing households and businesses that generate their own electricity to sell any excess to the grid. *This proposal also has merit.*

Telecommunications. The Treasury document notes that the cost to users is extremely high, quality of broadband poor, and download speeds very slow. South Africa also has extremely low levels of "uptake" and access to information and communications technology (ICT), but obtaining rights-of-way to deploy telecommunications infrastructure is "notoriously difficult". Telkom (of which the state owns almost 41%) is the only company with a substantial fixed-line access network ("local loop") connecting households to exchanges.

The document proposes immediate enforcement of local loop unbundling to give multiple providers access, enhance competition, and reduce unnecessary infrastructure duplication. "Open access conditions" should be imposed. State-owned companies in the sector are hoping to be tasked with broadband rollout, but the private sector's proven capability should also be "leveraged". Spectrum should be released through an auction process. The resulting increased supply of spectrum will reduce prices.

The document notes, however, that proposals in a 2016 white paper for a "wholesale open access network" (WOAN) had generated "much concern" and that the legal form of this new entity remained "undetermined". *Established companies argued that forcing them to share infrastructure with new operators would violate their property rights and deter investment.*

Transport. The document says that South Africa's high transport costs have been attributed to lack of competition owing to the existence of natural monopolies and the presence of state-owned companies. "Bringing in competition and private sector participation can increase investment and improve service delivery without weighing on the balance sheets of state entities." In any event, the direct impacts of more competition on these balance sheets are "likely to be outweighed by the efficiency gains to the rest of the economy". There are many opportunities for private sector participation, and the government should invite such participation where it cannot currently afford to invest. Granting third-party access to the core rail network is crucial, although Transnet would retain ownership of all rail infrastructure assets. Introducing competition between port terminal operators and in warehousing and logistics at the ports could bring the performance of the major ports in line with international best practice.

This is all to the good. But there is no need to restrict private sector participation to areas where the government cannot afford to invest. Given high levels of public debt, there are few areas where the government can afford to invest anyway.

The document points out that road freight transport continues to maintain a very high market share of about 70%, even though rail freight tariffs are lower than road tariffs. It favours proposals for full cost recovery from road freight operators, but notes that a shift from road to rail necessitates improvements in the latter.

The document calls for "a review of fuel price regulation", particularly in terms of spot price benchmarks and where regulation has purposely supported incumbents such as Sasol. *Further detail is not provided.*

Referring to the time wasted in commuting and the rising real costs thereof, the document points out the large amount spent on public transport benefits very few people. Indeed, whereas in 1993 around 12% of the working population made use of state-subsidised train and bus transport, in 2013 the proportion was down to less than 9%. Its proposals include bringing taxis into the subsidy net.

No reference is made to the massive subsidies effectively paid to South African Airways (SAA).Diverting that money to taxis would be a much better way of spending it. It is *indeed unconscionable that SAA should benefit from never-ending state generosity while the lowest wage earners spend 40% of their income on transport.*

Water. The document notes that the government is in the process of establishing an independent water regulator, who will improve efficiency and ensure appropriate price setting in place of tariffs that do not adequately cover costs. Referring to leakages, supply constraints, and infrastructural backlogs, the document says there "needs to be a comprehensive management strategy for investment in water resource development, bulk water supply, and wastewater management". In this regard, it is "critical to learn from the success of the IPP programme in the electricity space and adapt this model to infrastructure provision in the water sector, particularly in areas such as the provision of water, irrigation, and sanitation".

Various specialists have identified the IPP programme for electricity as a model to follow for investment in water, for which the government does not have the funds. They point out that there is plenty of capital available from the private sector for such investment, provided appropriate financing models can be found within the context of secure property rights. Israel has plenty of experience on which South Africa can draw in how to mobilise private investment in the water sector.

Barriers to entry. The document says that South Africa's lagging productivity growth and declining export performance have been partly attributed to lack of competition in both upstream and downstream industries. Market concentration reduces the inclusivity of growth. Large businesses have the resources to navigate their way through regulations and inflexible labour markets, but small, medium, and micro enterprises (SMMEs) face significant obstacles. The cost of compliance with red tape (including BEE certification) is the same across all companies, making it more expensive in relative terms for smaller ones. One result is much lower rates of firm entry and rates of self-employment in South Africa compared to our peers. Ultimately these factors entrench the dominance of incumbents and make it difficult for the economy to transform. The document accordingly proposes "two microeconomic policy reforms" to address distorted patterns of ownership and boost firm entry and self-employment. These are lowering barriers to entry and promoting small business growth.

Although the document refers to "distorted patterns of ownership", it makes no reference to race. Its focus is rather on small business, although it recognises the role that effective rivalry among incumbents (along with new entrants) can play in "generating significant consumer welfare benefits". Among these are cellphone companies, while Capitec has realised large consumer savings and "extended services to the previously unbanked".

One of the main proposals put forward for lowering entry barriers is that competition and market structure issues should be taken into account when reviewing current or drafting new legislation, policies, and regulations. Also, the Industrial Development Corporation (IDC) should do more to help new entrants. Finally, it should be easier for SMMEs to apply for government incentives. "However, it must be kept in mind that any form of finance and direct support, without measures to address the range of barriers to entry and growth, will not be effective".

This last point is particularly important. Provision of funds is often regarded as some kind of panacea to promote small business. Essentially it involves recycling taxpayers' money or other funds, which is much easier than regulatory reform, for which the focus *on funding has often been a substitute. Dozens of state funding initiatives down the years have failed to enable SMMEs to thrive, as the document recognises.*

The document stresses the importance of ensuring that regulation favours entrants and also ensures that incumbents can be effectively challenged. In addition, the government should drive enabling measures to support rivals and smaller firms. In the retail sector, for example, supermarkets should not be able to enter upon leases with exclusivity clauses. Leases already in force should have their duration and scope reduced. Banking regulations should be eased to enable different categories of banks to cater for differing levels of risk.

Interfering with supermarket leases, whether current or new, is an unjustifiable interference with private property rights, whose importance the document elsewhere stresses. The state should rather concentrate on eliminating its own measures that handicap new entrants.

A warning also needs to be sounded about the Competition Amendment Act of 2018. Although the Treasury document makes no reference to this legislation, its references to market concentration echo some of its sentiments. Among other things, the Act gives officials wide powers to assess whether levels of concentration are too high. It also empowers them to break up large firms without having to demonstrate that they are abusing power in any way. Legislation granting officials excessive discretionary powers is in itself undesirable, while also creating uncertainty over property rights. The legislation – not yet fully in operation – also flies in the face of the Treasury's view (see below) that creating an environment in which small business can thrive is "inextricably linked" to an environment in which all businesses can thrive.

<u>Promotion of SMMEs.</u> Access to financing, "rigidities" in labour market regulations, and burdensome regulations are among the challenges faced by SMMEs. Given "the highly concentrated nature of South African industry, regulatory burdens protect incumbent firms from competition". "Leveraging" public procurement, broadening financing options, and reducing red tape are the main solutions proposed to help SMMEs.

To discourage late payments by government departments to SMMEs, interest could be added to outstanding balances. *The problem here, of course, is that the amount outstanding will simply increase as government departments continue delaying payments. Fixing this problem is part of the wider challenge to fix the entire public sector.*

The document notes that "there are a plethora of state funds and funders" for SMMEs. Proposed broader financing options include consolidating existing funds and making "start-up capital" available. As noted above, the document also makes the point that sorting out the funding problem will not help unless barriers to entry and growth are addressed. Accordingly, the document contains a number of proposals to reduce the regulatory burden.

One is to give SMMEs full or partial exemptions from labour regulations. This would mean exempting them from having to comply with minimum wages laid down in bargaining council agreements. It would also mean exempting them from statutory national minimum wages.

These proposals are an improvement on those made in September 2012 in the National Development Plan (NDP), which wanted to strengthen both the bargaining council *system and compliance with minimum wage decrees. Although, as noted above, the Treasury document does not deal with the pro-union bias in labour law, exemptions from wage decrees would be an important step forward. Such exemptions should, however, be blanket rather than dependent on a burdensome application process.*

The second set of proposals the document makes to reduce the regulatory burden involves commitment to reducing red tape across all three levels of government. In particular, the Red Tape Impact Assessment Bill (of 2016), which was supposedly rejected by Parliament on procedural grounds, should be "revisited". The bill proposes a unit that would review all new legislation and determine whether a red tape assessment impact is needed. It would also require all departments and self-regulatory agencies to evaluate existing regulation and reduce red tape by 25% over five years.

Sensible proposals, of course. The problem is that we have heard them all before. Back in 2012, the NDP said that regulatory reform would "boost mass entrepreneurship". To simplify the regulatory environment, an expert panel would be appointed to prepare a comprehensive regulatory review for SMMEs. In fact, government promises to investigate reform of the regulations affecting small business date back to 1994 – 25 years!

Liberalisation goes against the DNA of the ruling party and its communist and trade union allies. Moreover, in South Africa as elsewhere, once regulatory agencies have been set up they are reluctant to surrender any of their powers. When regulations have adverse consequences, there is a tendency not to repeal them but to intensify them. Yet another problem, again not confined to South Africa, is that larger firms seeking to limit competition have the resources to lobby for measures to protect themselves. Other factors are the steady growth of government around the world, and the increasing attempts by international organisations to impose regulations on a global scale.

All of this means that liberalisation and deregulation face formidable ideological, political, and bureaucratic obstacles. One must nevertheless welcome the Treasury's attempt to keep beating this drum. It could also agitate for legislation stipulating that no regulatory body may propose any new regulations without at the same time repealing two currently in force.

In its discussion of SMMEs, the Treasury document also observes that "creating an environment in which [they] can thrive is inextricably linked to creating conditions in which all businesses can thrive". Such businesses include "high growth firms", which are the most productive and innovative in their industries and also create "a disproportionately large share of jobs".

This runs counter to the flawed argument sometimes heard that small businesses are the key to growth. Moreover, threats to physical and intellectual property rights are incompatible with creating a business-friendly environment. The Treasury no doubt knows this.

<u>Promotion of labour-intensive growth in agriculture.</u> The Treasury document says that agriculture can absorb less-skilled labour, but that it has continued to experience declining employment. "Agrarian transformation is crucial", and it requires a "fundamental change in the systems and patterns of ownership and control", but the pace of land reform is "not satisfactory". However, reform should be "oriented around growing the sector" and should not "purely be an endeavour to transfer land". "Security of private property rights" should be respected throughout the reform process.

As examples of significant "agrarian transformation", the document cites 15 case studies of "innovative joint ventures" in which commercial farmers have helped smallholder farmers. "Buy-in" from other private sector players helps these ventures to succeed. If the government were to create a more enabling environment for investment in agriculture, joint ventures could be "scaled up". They would require significant investment from large commercial farmers and agribusiness.

Proposals include "contract farming", in terms of which agribusinesses would provide small-scale farmers with financing, seeds, training, and other inputs, and then purchase some of their output. The document further suggests that state subsidies could be used to enable private service providers to deliver extension services to smallholders. The state can also use "strategic procurement" as a tool for supporting smallholder farmers.

The document says it is "crucial to unlock investment in labour-intensive crops", but makes no mention of statutory minimum wages introduced in the agricultural sector and whether these might inhibit such investment.

The document is lukewarm about land reform. It points out indeed that "numerous restitution projects are not productive, and some have even collapsed completely, which drastically reduces their impact on poverty alleviation and job creation". Rather than alienating or undermining commercial agriculture, the Treasury sees it as vital in helping the smallholder sector to grow, provided that partnerships are carefully designed and that they also ensure that contract terms are not too onerous for smaller farmers. And of course the Treasury is absolutely correct to stress the vital importance of respecting private property rights.

<u>Promotion of tourism.</u> The document notes that tourism is characterised by low barriers to entry. Most tourism businesses are small, providing services such as accommodation, guiding, day tours, and taxis. Moreover, tourism offers jobs in rural as well as in urban areas. Accounting for 9.8% of total employment, tourism is an important driver of economic growth. However, tourism businesses face among the highest levels of regulation in the country. Other countries are making it easier for tourists to travel, but South Africa risks falling behind.

Proposals include greater budgetary support for tourism agencies, assistance for tourism firms in "navigating the highly regulated business environment", amending visa regulations to make it easier for tourists to travel to South Africa, and providing "highly visible policing in tourist hotspots".

Apart from these obvious measures, the slashing of red tape, already referred to above, is clearly essential if tourism is to expand. Yet a new Tourism Amendment Bill, already introduced in Parliament, will impose additional and unnecessary restrictions on the Airbnb sector. Clearly designed to protect larger hotels, these restrictions include limitations on the number of nights that Airbnb establishments may sell each month. The Treasury should resolutely oppose these new restrictions, which will handicap small business, stifle competition, and put up prices. They will also undermine foreign tourism and so the ability of South Africa to export services. They are of course an excellent example of how incumbents try to use regulation to protect their interests against newcomers.

<u>Implementing flexible industrial and trade policy.</u> "Long-term development," says the Treasury document, "is fundamentally about structural change: it involves producing new goods with new technologies and transferring resources from traditional activities to higher productivity areas." Export orientation is a key component, for it sustains

competitive pressures and forces innovation. Exporters tend to be larger, more productive, and pay higher wages than domestic firms. *Spot on.*

South African policy is articulated in the Industrial Policy Action Plan (IPAP). Policy is on the right track, but it should not come at the cost of increased productivity and competitiveness. The document says policy interventions must be evaluated to ensure that they are effective and to get a better understanding of "critical constraints and market failures". Questions also need to be asked about the efficacy of Special Economic Zones (SEZs). It is, for example, unclear whether the incentives put in place are effective in "crowding in the desired private investment".

"Specific interventions" are also required to strengthen the efficacy of public procurement as an industrial policy tool. One such intervention is to build capacity at the South African Bureau of Standards so that it can conduct "local content verifications". Local content can be used to support domestic industrialisation, especially in a subdued economic environment when demand is limited or the growth of infant industries is stifled by import pressure. Public procurement needs to take into account the sustainability of local production beyond government support.

The document points out that the contribution of manufacturing to the economy and to employment has declined, along with its capital base. "Despite the numerous policy interventions aimed at supporting the sector's performance, the country is effectively deindustrialising."

Although the Treasury document talks about "market failure", reading between the lines suggests that "planning failure" might be a more accurate description of industrial policy. It may also be the case that "deindustrialisation" is occurring not in spite of all the policy interventions, but because of them.

Turning to exports, the Treasury document says that South Africa is dominated by "super exporters who account for the vast majority of exports", many of these companies also being large importers. Any strategy to boost exports must facilitate "intermediate" imports. Many such imports cannot be produced domestically. Firms importing them are exposed to global best practice and need to raise their own productivity. Import competition can put competitive pressure on local firms, making them more innovative or incentivising them to export.

The document adds that "where a particular value chain is dominated by a large, protected, inefficient producer and importing a replacement product is costly due to trade protection, this imposes a significant cost disadvantage compared to global peers and affects the overall competitiveness of that entire value chain".

Effective trade policy cannot focus on export promotion alone. It "must include an emphasis on ensuring that intermediate products are competitively priced". One implication of this is that "proactive steps are required to address the current bias in trade policy in favour of products produced by large incumbent firms" and those who are "more organised" *(and therefore presumably better placed to lobby for protection against competition).*

Amen to that. However, there is something of a contradiction in the document's desire to promote exports while at the same time favouring public procurement as a means of promoting local content, which puts up intermediate prices and so reduces the competitiveness of exports. BEE requirements in procurement legislation put up prices, which the public sector can ill afford.

The Treasury document would be greatly strengthened if it made some clear proposals about reducing protective tariffs. It could, for example, propose a timetable for the steady reduction of tariffs (as it has done for the reduction of red tape). Moreover, given that trade liberalisation may lead to job losses in some firms, the Treasury should launch a campaign of public education to explain why its overall impact is beneficial in raising productivity and incomes, generating additional jobs, overcoming poverty, and reducing prices.

Promoting export competitiveness and harnessing regional growth opportunities. The document reiterates that exports have been identified as a key driver of economic growth. Technologically sophisticated exports, in particular, are crucial to structural transformation in that they enable the economy to move from low- to high-productivity activities.

Negotiating trade agreements is complicated by the fact that South Africa is a member of the Southern African Customs Union, while getting agreement at the National Economic Development and Labour Council (Nedlac) can pose "often insurmountable" hurdles. However, negotiating agreements for key export products is critical to enable South African exporters to have competitive access to growing markets. Even where trade agreements persist, most products can be exported only if destination markets accept South African standards, especially for agricultural products. To help ensure that public sector capacity constraints are overcome and to enable exporters to receive the necessary documentation, "public-private partnerships" should be leveraged. Export credit insurance should also be easier to obtain.

The global export environment is increasingly challenging, however, so that South Africa needs to shift its focus towards "increasingly attractive regional growth opportunities". Intra-regional transport costs are exceedingly high, however. Border delays and other restrictions also inhibit competition. These need to be addressed. Another key constraint to regional industrialisation is inadequate infrastructure. This, however, presents opportunities for South African firms in the construction sector. South Africa needs to ensure, however, that the "protectionist" policies of other governments in the region are not evident in South Africa's own policies.

Mining. The document states that structural transformation includes moving the economy away from its dependence on primary activities. Instead of a "narrow" focus on "downstream linkages", for example the "beneficiation" of platinum into jewellery, policy should promote "upstream linkages", such as local production of pumps, valves, and trucks used in mining. "Upstream" manufacturing is "engineer-intensive, agile, and able to reinvent itself, which means it is not dependent on mining". South Africa retains a comparative advantage in mining-related innovation, but declining research and development are eroding its capacity to sustain such competitiveness in the future.

Declining research and development are no doubt partly the result of the uncertainty over the future of the South African mining industry arising from threats to property rights, mining charter demands, and other political factors. The document's scepticism about downstream beneficiation is to be applauded. Its suggested focus on upstream linkages instead is also to be applauded. Down the years numerous top-class companies have been created in South Africa to serve the needs of the mining industry. But focusing on upstream linkages must not result in any local procurement requirements. Mining companies should be free to purchase equipment wherever they like.

Scenarios and impact

The Treasury document produces three scenarios. The short-term one envisages reforms that will come into effect from year two. These include changing the visa regime, releasing spectrum through auction, and improved marketing of agricultural products. The medium-term scenario, assumed to apply from year four, includes encouraging new entrants into the telecommunications sector, allowing better access and competition in rail and port operations, reducing obstacles to trade across borders, improving public transport, promoting small business growth, and assisting small farmers. Long-term scenarios, anticipated to start from year seven, include trade promotion for agriculture, renegotiating bilateral trade agreements, and improving quality and access to infrastructure. Combining all the scenarios would raise average GDP growth over 10 years by 2.3 percentage points, just over 1 million additional jobs being created in the process.

Assessment

Unlike so many policy pronouncements from the ruling party and its leaders, which blame low growth on racial inequality and the persistence of colonialism and apartheid, the Treasury document is free of such red herrings. It goes straight to policy. The factors that hinder greater participation of new firms in the economy are identified as: lack in economies of scale, regulations and policies that support incumbents or are ineffective in assisting rivals and new firms, competition legislation that favours large firms and incumbents, and challenges in access to finance.

Business, ratings agencies, and journalists often call for "structural reform", without specifying what they mean. The other favourite South African strategy is to fall back on calling for a new "social compact". This too usually avoids talking about anything specific. Yet another favourite strategy is to call for "policy certainty", without specifying the content of the policies required, let alone recognising that they may do more harm than good.

A further favourite is to proclaim that we have "excellent policies", and that all that is now required is to implement them. This too overlooks the fact that many policies are in fact thoroughly bad, and that the country is better off if they are not implemented. Introduction of the unaffordable national health insurance system, amending the Constitution to provide for expropriation without compensation, and introducing requirements for savings to be invested in "prescribed assets" are among the policies best avoided. The same applies to the excessive powers the government is granting itself under the Competition Amendment Act of 2018.

Even though it suggests a (limited) social compact, the Treasury document is a welcome contrast to all of this. It has taken the lead in putting forward important microeconomic proposals. Few of these are new, most of them having been urged down the years by various organisations favouring economic liberalisation, the IRR among them. But their importance is that they are all now strung together in a document emanating from the Treasury.

Implicit in the document is the recognition that regulation has come to the end of the road, its harmful effects dramatically demonstrated by the fact that South Africa has slipped from 32nd out of 181 on the World Bank's "ease of doing business index" in 2008 to 82nd out of 190 in 2018. In remarks prepared for a meeting of the World Economic Forum in Cape Town at the beginning of September, President Cyril Ramaphosa stated that his government had set itself the role of climbing from 82nd to *somewhere in the top 50. He has said little to indicate what reforms he would implement to do this. The Treasury has now filled the gap.*

Its document could of course have proposed a great deal more to strengthen the case for investing in South Africa. Arguably, however its strength is its modesty. Unlike the NDP, it is free of commitment to a "developmental state" empowered to make "intensive" interventions to deal with poverty and unemployment. Although the Treasury document reiterates support for interventionist policies such as local procurement, its overall thrust is in the direction of deregulation and greater liberalisation. This deserves strong support.

Also deserving of strong support is the document's stress on the importance of economic growth. Down the years there have been attempts both in South Africa and elsewhere to denigrate economic growth, the most notorious example being The Limits to Growth *published by the Club of Rome in 1972. Yet as global economic history demonstrates beyond question, economic growth is absolutely fundamental to raising living standards and reducing poverty.*

The document has of course been criticised in that it is not the product of a consensus among the ruling party and its communist and trade union allies. This is not a weakness, but a strength. The search for such a consensus would have necessitated endless rounds of consultations, the result of which would have been an anodyne document to which the communists and trade unions would still have objected. Instead of wasting time on a fruitless exercise, the Treasury has provided valuable leadership in South Africa's battle of ideas. The challenge now is not to seek an unattainable consensus, but for the minister of finance and the Treasury to go over the heads of their ideological opponents and market their ideas.

Risks

There is of course a risk that the Treasury's proposed strategy will fall by the wayside, as eventually happened to Growth, Employment, and Redistribution, *which was published in 1996 (and which the IRR supported). This must not be allowed to happen. Captains of industry, organised business, public servants, politicians, journalists, economists, and those few non-governmental organisations committed to faster growth need to speak up in favour of the Treasury document, loudly and clearly. And the Treasury must do some serious marketing.*

John Kane-Berman

Institute of Race Relations (IRR)

Johannesburg

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South African Institute of Race Relations

011 482 722 7690
info@irr.org.za