

National Development Plan

Can it fly? Will it fly?

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Aims to be reached by 2030

- To reduce **unemployment** to 6%.
- To reduce **poverty** (poverty line defined as R418 (2009 Rands) per person per month) from 39% to zero.
- To reduce **inequality**, defined i.t.o. the Gini coefficient, from 0.7 to 0.6.
- Dangers of we do not reach aim.
 - Social and political unrest/instability
 - Room for populist politics

Central challenges

- **Unemployment**
- **Education**
- Infrastructure
- Spatial patterns
- Resource intensity
- Public health
- Public services
- Corruption
- Divided society

Overcome challenges through:

- Jobs
- Improved education and skills development
- Improved health care
- Better access to public transport
- Social protection
- Rising incomes
- Housing and basic services
- Safe communities

Key economic targets

- Unemployment decreases: **27%** (2011), **14%** (2020), **6%** (2030)
- Employment increases from **13 mil** to **24 mil**
- Labour force participation increasing from **54%** to **65%**
- GDP increasing **2.7 times** at average rate of **5.4%** per annum
- Per capita GDP increases from **R50 000** to **R110 000**
- Proportion of income earned by bottom **40%** increases from **6%** to **10%**
- Exports grow at **6%** per annum (non-traditional exports increase by 10%)
- Saving rate increases from **15%** to **25%**
- Investment/GDP ratio increases from **17%** to **30%**
- Public sector investment/GDP increases to **10%**
- Public empl programmes: **1 mil** by 2015 and **2 mil** by 2030

- Can it fly?
- Will it fly?

Issues to consider

Can it fly?

- Employment and economic growth
- The business-labour relationship
- The formal-informal sector divide
- Skills and the spatial dimensions of unemployment
- Budgetary impact

Will it fly?

- Business and labour as corporate/social citizens
- Citizen participation

- Can it fly?

Employment and economic growth: Two approaches

- The plan focuses on both export-led growth and growth through domestic oriented activity.
- “A large percentage of the jobs will be created in domestic-oriented activities and in the services sector. Some 90 percent of jobs will be created in small and expanding firms. ...Export growth, with appropriate linkages to the domestic economy will be critical in boosting growth and employment, with small- and medium-sized firms the main employment creators.” Ch.3, pp5.
- “Traded activities will act as a spur to growth, as will active stimulation of domestic opportunities and the linkages between the two.” Ch.3, pp15

Employment and economic growth: Two approaches

“The national development plan proposes to create 11 million jobs by 2030 by:

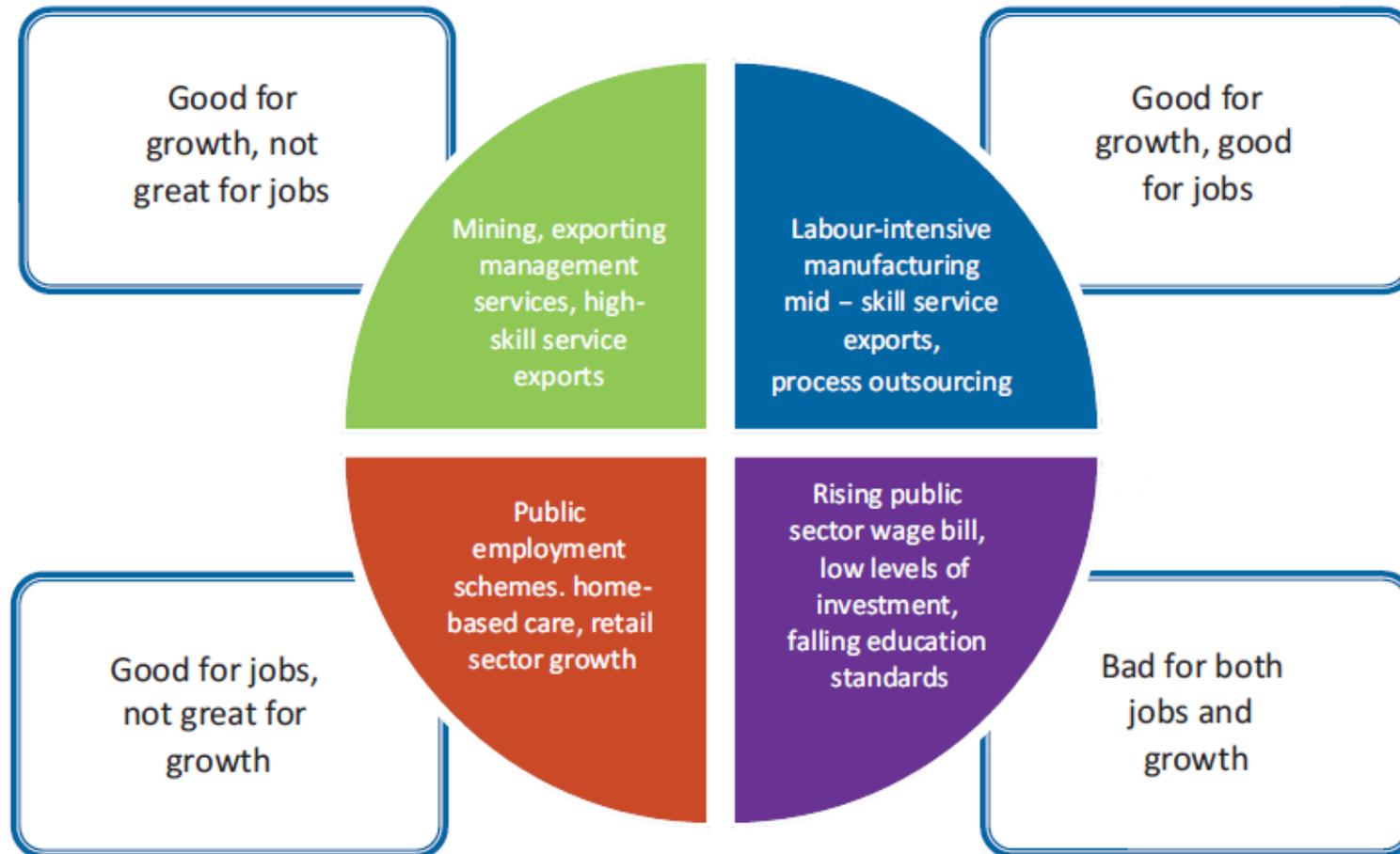
- Realising an environment for sustainable employment and inclusive economic growth
- **Promoting employment in labour-absorbing industries**
- **Raising exports and competitiveness**
- Strengthening government’s capacity to give leadership to economic development
- Mobilising all sectors of society around a national vision.”

Employment and economic growth: Two approaches

- Exports first on the list
- Others include:
 - Increase innovation
 - Improve labour market dispute resolution and discipline
 - Small business support
 - Better education and vocational training
 - Increase investment in infrastructure
 - Reduce regulatory burden
 - Improve capacity of state to implement policy

Employment and economic growth

Figure 1: The quandary of growth and job creation



Employment and economic growth

- The plan focuses on both export-led growth and growth through domestic oriented activity.
- These are rather different growth strategies:
 - China model
 - Brazil model
 - German model

Export-led growth

The China (East and South-East Asia) model:

- Labour intensive/high investment.
- Low wages enable higher profits to reinvest.
- Corporate saving high.
- Since wages are low, consumption is low.
- Demand then depends on exports and investment.
- Current account perpetually in surplus (offset by either a financial account deficit or increases in foreign reserves).
- Once exports and investment fall (when marg prod of cap falls), difficult to increase consumption to offset the drop in investment and exports.
- Model yields spectacular growth rates for 2 to 3 decades, but is ultimately not sustainable.
- Do not underestimate the role of the undervalued Renminbi.

Growth through domestic oriented activity

The Brazil model (14% export/GDP, higher per capita purchasing power than in China)

- Local manufacturing for local consumption.
- Higher wages means higher consumption.
- However, improved profitability depends on lowering unit labour cost by combining low-skilled labour with affordable capital designed to increase substantially the productivity of low-skilled labour. (Role for R&D)
- Demand then depends on consumption and investment.
- Upside: After 2 or so decades it might be more sustainable.

- In the section about how to accelerate growth:

“Rapidly rising wages do not usually precede growth acceleration – they are more likely to follow the onset of a sustained acceleration by two to five years. This is particularly the case if the urgent focus is on access to employment opportunities for large numbers of workers, on the back of which qualitative improvements can be attained. This is a critical trade-off that South African society has to address. However, two qualifications should be attached to this: expanding access to new entrants should not be undertaken in a manner that lowers the working and remuneration conditions of existing employees; and the overall dispensation should include some sacrifices by management.” Ch.3, pp16.

Export-led growth

German model:

- High wages, but also high labour productivity, ensuring lower unit labour cost and thus competitive pricing
- Exports high (especially high-end niche products)
- Lower unit labour cost and exports ensure high profits.
- Since wages are high, allows for relatively high consumption (though saving rate higher than in Anglo-Saxon economies).
- Demand then depends on exports and consumption.
- Current account perpetually in surplus (offset by either a financial account deficit or increases in foreign reserves).
- Do not underestimate the role of the Euro that is undervalued for Germany.

Export-led growth

- Exports still seen by many as panacea.
- Problem is to compete on basis of unit labour cost.
- If it is too high, reduce real wage, or increase output and labour productivity.
- Hourly wages in SA (acc to Diagnostic Document) are:
 - 5X wage in India, China
 - 3X wage in Mexico and Malaysia
 - and higher than wages in Russia, Brazil, Turkey
- Reducing wages to this extent is not feasible.
- Can we out-compete this through higher productivity?

Export-led growth

- Export-led model has further shortcoming.
- Debt problems in Euroland, the US, Japan and the looming municipal debt problem in China.
- International balance sheets will take a couple of years to recover.
 - Lagarde warning about a 'lost decade'.
- In addition, EU has lists of regulations with which exporters have to comply.
- So should SA bet on increasing exports substantially in the near future? Probably not.

Export-led growth and National Accounting Identity Implications

- National Accounting Identity:
- $(S - I) + (T - G) = (X + TR + M)$
- S: 15% to 25%; I: 17% to 30%; X grow by 6% per annum
- So if $(S - I)$ gap increases from -2% to -5% and exports increase by 6% per annum, then either imports will have to increase with more than exports, or government will have to run a current surplus....
- Compare to China where $(S - I)$ gap is positive, which, with an export-led policy, places less pressure on government.

The business-labour relationship

- SA has a very antagonistic labour relations system.
- Point of departure for both business and labour is to mistrust each other's agenda.
- SA needs labour relations system where both parties accept each others bona fides; where the other's agenda is not seen as illegitimate.
- Sectoral/industry level wage bargaining leads to higher wages and unemployment than firm or the economy-wide bargaining. Requires a rethink of SA's bargaining model.

The formal-informal sector divide

- No mention is made of the informal sector / secondary economy, or its role.
- Research has shown that informal sector in SA is relatively small (while unempl is high).
- Informal sector largely retail based – SME manufacturing is very small
- Do we understand barriers to entry into the informal sector?
 - Lack of capital, skills?
 - Spatial issues (getting products to market).
 - Regulations.
 - Competition of large chain stores.

The formal-informal sector divide

- In much of policy in the past the informal sector was very much stigmatised.
 - Something we do not talk about and if we do, it is about how quickly we can get people moved over to the formal sector.
- Is that the right approach, given that the informal sector has created a large amount of the jobs created in the last decade?
- Is the right question not how should we turn survivalist activities into true for-profit micro enterprises (still operating in the informal sector)?
- In addition, should there also not be a focus on small-scale manufacturing, where value added might be more than in retail?

The formal-informal sector divide

- Critical question: Is the negative portrayal of the informal sector not influenced by some formal sector interests?
 - For unions these are people outside the bargaining system.
 - For government they are outside the tax system.
 - For some in business the informal traders are just too small to worry about; also perceived as too risky.

Skills and the spatial dimensions of unemployment

- Education is highlighted as one of the two key elements of the plan. Requires substantial management shift. Roles of SADTU?
- The plan makes a large contribution by highlighting the spatial effects of Apartheid.
 - Plan suggests increasing urban density, reducing distances between places of residence and places of work.
 - It highlights the importance of affordable and reliable public transport.
- Transport cost and effective labour supply.
- Bridging the distance digitally: electronic labour registers.

Budgetary impact

- If rolled out over the next 18 years, what will be its impact on expenditure, revenue, deficits and debt?
- The plan mentions large capital expenditure. Financed through debt or taxes? We are starting to see some detail as in the latest budget.
- Most of the proposals relating to infrastructure, education, health, high density urbanisation are essential to reach the aims of the plan.
- But can we afford them?
- And if we can only afford them partially, which components get priority?

Costing of the plan – budgetary impact

- How much of the financial viability of these projects depends on the projected average growth rate of 5.4% to generate the revenue needed to finance them?
- Conversely, to what extent is the 5.4% growth rate itself the result of these projects?

- Will it fly?

Business and labour as corporate/ social citizens

- Plan states that companies need to invest, employ and export.
 - How is this different from GEAR and ASGISA and why would companies now act differently?
- W.r.t. unions, the plan mentions wage moderation.
 - However, public sector unions have stranglehold over many government sectors, e.g. Education, Health and Local Governments. Will they act differently?
- How will we ensure that companies and unions change their behaviour?

Business and labour as a corporate/ social citizens

- Given persisting large gaps in income and wealth, what should be expected from companies as corporate citizens?
- Does corporate citizenship stop at companies' tax contribution?
 - If skills is the main issue, should corporate sector not play a more active public role in creating skills (e.g. a large bursary fund or, in cooperation with government, a corporate 'Adopt-a-school' project (the latter is part of Nedlac agreement))?
 - Better educated workers are upwardly mobile, which will reduce the large gaps created by the past.
- Might benefit corporate sector in decade or two – requires a longer planning horizon than the next quarter or year.

Business and labour as a corporate/ social citizens

- The same should be asked about unions.
- Does their social/institutional citizenship stop at moderating their wage claims?
 - What about also contributing to training and skills enhancement of non-members (particularly in vocational training)?
 - Could this be done in cooperation with business?

Citizen participation

- We should have much more public participation by all strata of society; a true democratic debate.
- Do we:
 - As citizens, taxpayers and voters hold government accountable?
 - As consumers, shareholders, workers and citizens hold companies accountable?
 - As workers and citizens hold unions accountable?

Conclusion

- The plan represents a very substantial start. It contains all the main elements.
- It introduces spatial dimensions into the public debate to an extent that was not done before.

Can it fly?

- The issues highlighted above still need to be addressed before the plan *can fly*. But the plan is a substantial improvement over its predecessors.

Will it fly?

- Need to elaborate on the roles of companies and unions as corporate/ social citizens.
- Active participation of South Africans as citizens.
- Maybe we need the main role players to subscribe explicitly to the vision statement contained in the plan.