Economic Transformation Discussion Document for the 2010 National General Council

1 Introduction

The ANC faces the historic task of replacing apartheid divisions, inequality and impoverishment with a more equitable and inclusive economy. It is impossible to achieve our long-standing ambition of a non-racist, non-sexist, democratic society unless we also ensure that all our people gain from South Africa's economic development. In the words of the *Strategy and Tactics* document adopted in 1969,

> Our drive towards national emancipation is therefore in a very real way bound up with economic emancipation. We have suffered more than just national humiliation. Our people are deprived of their due in the country's wealth; their skills have been suppressed and poverty and starvation has been their life experience. The correction of these centuries-old economic injustices lies at the very core of our national aspirations.

In 2007, the 52nd National Conference at Polokwane resolved that, "The central and most pressing challenges we face are unemployment, poverty and inequality." It continued that answering these challenges

> "…means that we must simultaneously accelerate economic growth and transform the quality of that growth. Our most effective weapon in the campaign against poverty is the creation of decent work, and creating work requires faster economic growth. Moreover, the challenges of poverty and inequality require that accelerated growth take place in the context of an effective strategy of redistribution that builds a new and more equitable growth path.
>
> "The skewed patterns of ownership and production, the spatial legacies of our apartheid past and the tendencies of the economy towards inequality, dualism and marginalisation will not recede automatically as economic growth accelerates. Therefore, decisive action is required to thoroughly and urgently transform the economic patterns of the present in order to realise our vision for the future…"

Based on the resolutions at Polokwane, the top priorities in the 2009 Elections Manifesto include the creation of decent work and sustainable livelihoods as well as rural development in the context of a "sustainable, equitable and inclusive economic growth path." The Manifesto says,

> "Decent work is the foundation of the fight against poverty and inequality and its promotion should be the cornerstone of all our efforts. Decent work embraces both the need for more jobs and for better quality jobs. The creation of decent work and sustainable livelihoods will be central to the ANC government's agenda.
> "The ANC government will make the creation of decent work opportunities and sustainable livelihoods the primary focus of our economic policies."

The struggle to build a more equitable and inclusive economy faces significant obstacles. Apartheid entrenched structures of ownership, access to quality education and settlement patterns that reproduce inequalities. It designed economic and state institutions that favour a small minority at the cost of the ANC's constituencies. These systems prove difficult to unwind, since they are embedded in long-standing and complex systems of decision-making and resource allocation. They establish a balance of economic power biased toward capital, which means we need a strategic approach and realism to achieve our aims.

The international context adds to the challenge. The global economic downturn that hit in 2008 brought massive job losses for ordinary workers; reduced government revenues; and increased volatility in international export and financial markets. In the long run, moreover, South Africa has to reduce emissions.

This paper aims to help concretise ANC positions on the economy and identify areas that still require discussion by:

- Reviewing shortcomings as well as progress around the economy since 1994
- Identifying core strategies to ensure more equitable, inclusive and sustained growth going forward, and
- Unpacking some policy debates in that context.

The analysis here underscores that the decent work agenda means that ANC policies must go beyond the relief of poverty to address inequality and exclusion. Since 1994, the ANC-led state has made great progress in transforming government grants, infrastructure and social services to improve conditions for poor communities. Addressing inequality requires in addition stronger programmes that will:

- Transform systems of production and ownership so as to create employment opportunities on a large scale and increase the economic power of poor communities and workers;
- Enhance social and economic mobility especially by giving poor communities more equitable access to quality secondary and tertiary education, and by doing more to provide skills and career paths for workers; and
- Encourage more equitable income distribution overall, including by limiting executive incomes and the conspicuous consumption of luxuries.

In effect, achieving a more equitable society, given the current national and international balance of power, involves a trade off: government will systematically reduce the normal costs of doing business, which increases the space for using sticks and carrots to get capital to support strategies to establish a more equitable economy and society. By extension, the pillars of an equitable development strategy are:

1. The state must respond more effectively to factors that impose unnecessary costs on business and the economy, notably around the value of the rand, the quality and cost of infrastructure, skills bottlenecks and the regulatory framework.
2. By cutting unnecessary costs to business, the state creates the space to strengthen strategies to achieve a more equitable economy and society, including:
    a. Encouraging investment in projects that can create decent work on a large scale, including upgrading conditions for marginal workers. The state should continue to increase the resources available for investment through the IDC and rural development schemes. At the same time, it must ensure that sector strategies in agriculture, mining, manufacturing and services, including the public service, focus consistently on employment creation in the medium term, while laying a basis for knowledge-based growth in the longer run.
    b. Supporting greater equity by encouraging broader ownership, including through collective shareholding by workers and communities and support for co-ops and

small and micro enterprise; promoting economic and social mobility for working people and their children, including by improving access to quality education; and discouraging conspicuous consumption by the rich.

c. Strengthening social protection in ways that enhance access to economic opportunities for the unemployed.

Implementing this kind of transformative strategy requires that the ANC initiate a more strategic approach to private capital. For a capitalist economy to succeed, the state has to keep business sufficiently profitable. It should act to raise costs for business only where required by the imperative of achieving a more inclusive and equitable economy. We can no longer afford to let individuals, departments or agencies raise the cost of doing business in line with their own priorities or through poorly-thought out-measures at the expense of national needs and aims.

While there is broad agreement about the pillars of an equitable development strategy, some key debates remain. These debates relate to the balance of power and ownership, including the potential of nationalisation; the function of narrow BEE, in the sense of measures that require businesses or the state to finance individual black owners; whether short-run capital inflows should be taxed; how to overcome apartheid settlement patterns; how to shape a developmental state that can carry out a systematic development strategy; and what monetary policy is needed to support more equitable growth.

Part 2 of this discussion paper reviews progress in transforming the apartheid economy since 1994. Part 3 presents proposals for a growth path based on the decent work agenda in greater detail, and discusses the implications for the developmental state. A final section outlines the core economic debates.

2 Economic progress since 1994

2.1 Economic growth

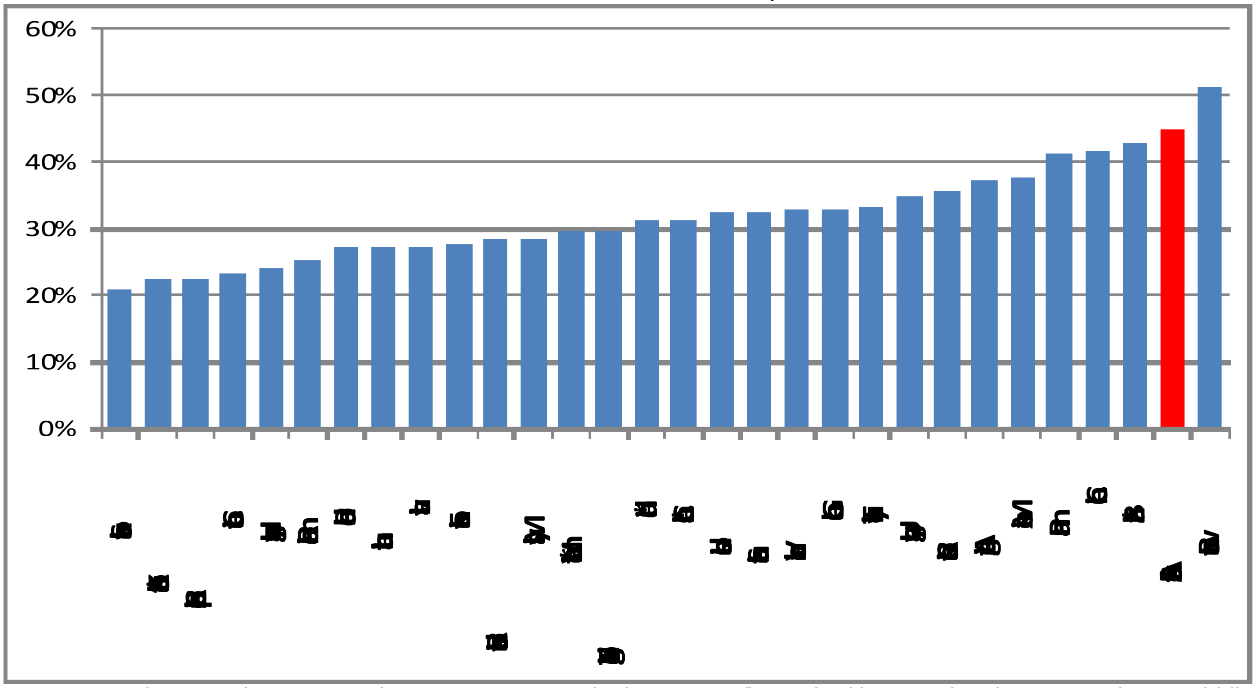
The South African economy grew 3,8% a year between 1994 and 2008. While not outstanding, its growth rate essentially tracked the international average. Only lower-income countries like China and India expanded much faster. Amongst upper middle-income countries, South Africa ranked 22 out of 33 for growth from 1994 to 2008. It outranked Argentina, Mexico and the Czech Republic, and lagged Chile and Malaysia as well as most of Eastern Europe.

The global economic downturn that started in 2008 strongly affected South Africa. The GDP declined 3% before beginning to recover in mid-2009. The downturn also caused a very severe drop in government revenues. For the 2009 fiscal year, government income shrank around 10%, and the fiscal deficit climbed to around 7%. That greatly reduced the ability of the state to respond to further international economic instability as well as to expand core programmes.

2.2 Inequality and unemployment

Despite reasonable growth, the economy remained deeply inequitable, with the highest unemployment rate of any middle income country. The richest 10% of households received more than 40% of the national income, compared to just over 30% in most other upper-middle income countries and the rapidly growing economies of Asia. South Africa is still one of the most inequitable countries in the world.

Table 1. Share of richest 10% of households in national income compared to other upper-middle income countries and selected Asian countries, mid-'00s



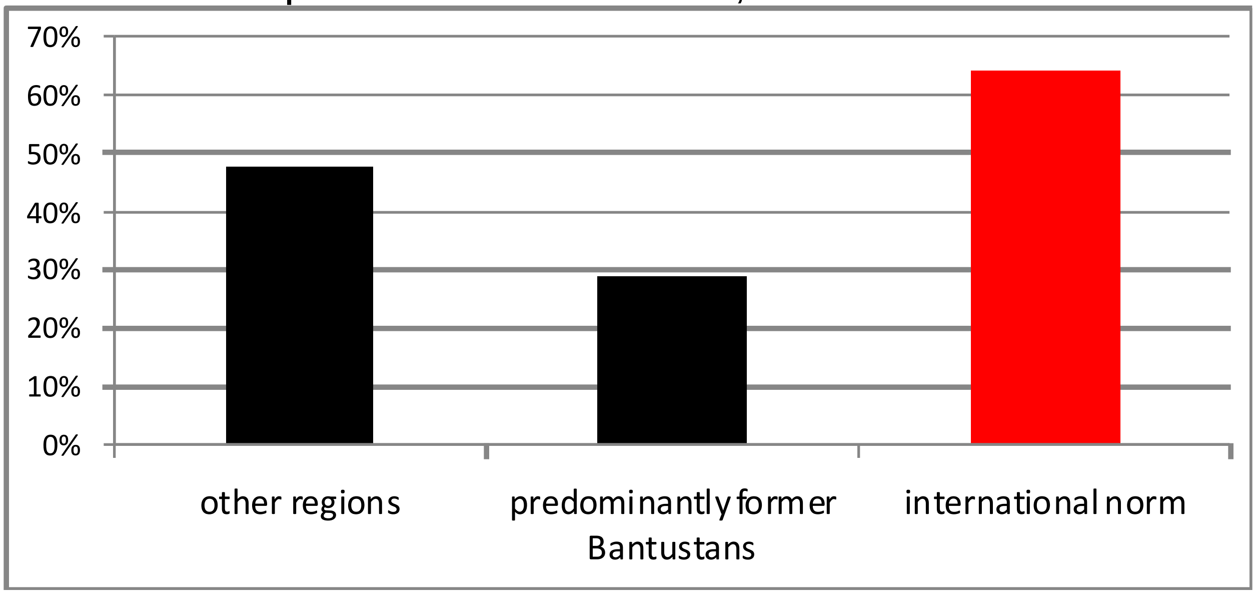
Notes: *South Korea is an upper-income country and Vietnam, India and China are low income or lower-middle income countries. *Source:* UNDP, indicators for 2009 Human Development Report. Downloaded from www.undp.org in May 2010.

In addition to the human costs of mass poverty, inequality in itself undermines sustained growth. It limits domestic demand. It also makes it harder to pursue a consistent development strategy. Privileged groups lobby hard for projects that meet their needs, such as mega infrastructure projects in rich areas and narrow BEE. The ANC's core constituency of working people and the rural poor demand stronger programmes to catch up with the rich. Conflict over policy decisions often paralyses government even when urgent responses seem obvious and necessary.

South Africa's deep inequalities result from the exclusionary and divided economic and social systems established under apartheid. These systems privileged a minority by depriving the majority of access to assets, including land and finance; quality education and certified skills; decent government services; and access to market institutions. They aimed both to reduce the majority to poorly paid wage labour and to limit migration into the cities. That in turn provided more opportunities and state resources for the minority.

The exclusionary systems established under apartheid continue to influence the economy. As Table 1 shows, in the late '00s less than half the working-age population earned an income from work. That contrasts with the international norm of around two thirds. In the former Bantustan regions, only a third of working-age people were employed. The International Labour Organisation found that South Africa ranked amongst the ten countries with the lowest levels of employment worldwide.

Table 2. Share of working-age population with employment, including self employment, in South Africa compared to international standards, 2008



Source: Data for South Africa calculated from findings on employment status by municipal district from Statistics South Africa, Quarterly Labour Force Survey, third quarter 2008. Database downloaded from www.statssa.gov.za in May 2010. International norm from ILO Key Indicators for the Labour Market (KILM) 2008, section on employment ratios, downloaded from www.ilo.org in March 2010.

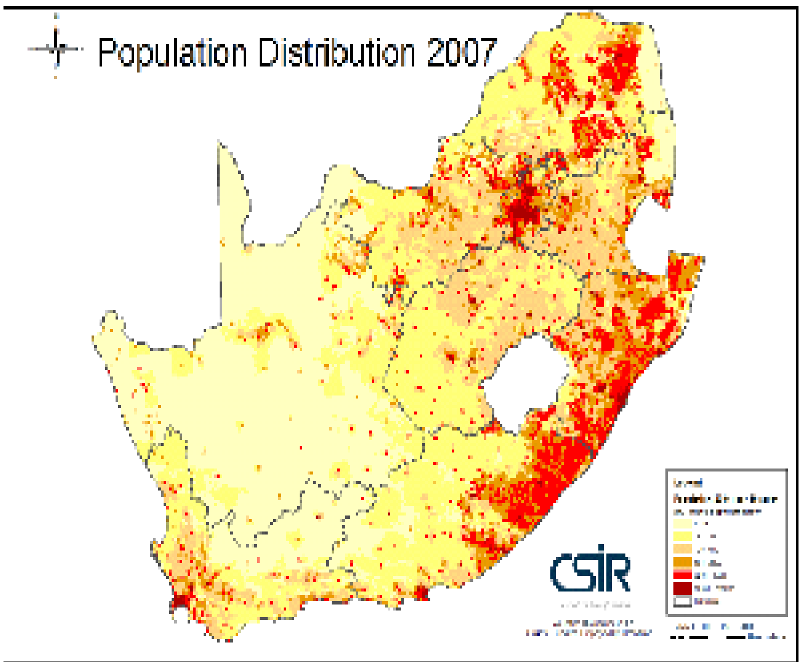
The relatively rapid economic growth of the mid-'00s led to the creation of almost two million new employment opportunities. As a result, the share of working-age adults earning some kind of income climbed from 40% in September 2002 to 45% in the third quarter of 2008. With the international economic downturn, however, by the first quarter of 2010 almost million jobs, or 6% of the total, disappeared and the employment ratio fell back to 41%. As in the rest of the world, job losses persisted even when the GDP began to grow again in late 2009.

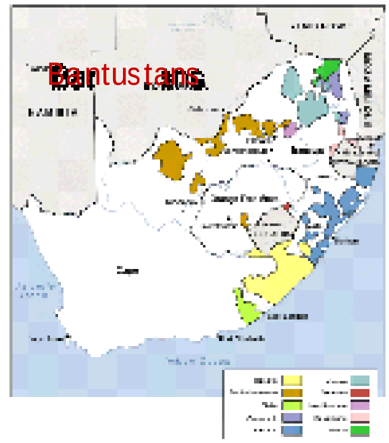
In addition to low levels of employment, many employed people had very low incomes. In 2008, 37% of all employees earned under R1000 a month. Informal, domestic and agricultural workers made up a third of all working people, but two thirds of those earning under R1000 a month. African women made up only 40% of all employed people (with 20% in domestic work), but over 50% of those earning under R1000 a month.

From 1994 to 2009 the share of total remuneration in the national income declined from 50% to 45%, while the share of profits climbed from 40% to 45%. This trend, which started in the early 1980s, pointed to growing class differentials.

The settlement patterns left by apartheid fuelled inequality by leaving much of the population far from economic opportunities. Moreover, the former Bantustans saw huge backlogs in government services and infrastructure as a result of underfunding under apartheid.
In 2009, using Quantec municipal data, some 30% of the population, and 38% of Africans, still lived in the former Bantustans. The share of the African population in the former Bantustans had declined from 44% in 1994. Some 29% of Africans lived in the metro areas in 2009, up from 23% in 1994.

Settlement density by region





The average household income in the former Bantustans was about a third that in the metros, while joblessness remained very high as indicated in Table xx above. Moreover, the former Bantustans still accounted for the main backlogs in government services. In 2007, they held a fifth of all households but half of those with a pit or no toilet, three quarters of those without improved water, and two fifths of those without electricity for lighting. Moreover, households in the former Bantustans were far more likely to face interruptions in both water and electricity.
A vicious cycle of poverty has emerged: since most households in the former Bantustans cannot afford to pay for quality services, their municipalities cannot provide them. In 2008, the average municipality in the former Bantustans spent about R400 a year per resident, compared to over R4000 in the metros.

2.3 Structures of production and control

Ultimately, the structure of ownership – of capital – lies at the heart of any understanding of the economy and especially of inequality. By definition, there is a dialectical relationship between capital relations (in the sense of who owns and controls economic activity) and the production structure. The specific nature of ownership both reflects and shapes investment and production decisions. In turn, those decisions determine employment opportunities and economic growth.

Apartheid entrenched structures of production and ownership characterised by dependence on mining-based exports and heavily concentrated ownership. After 1994, this situation was modified by growth in the financial industry and newly deregulated service sectors; declining profitability in manufacturing and in the contribution to the GDP of gold mining and agriculture; and increased state support for black capital.

Through the years from 1994, exports based on the mining value chain, including heavy coal-based chemicals from SASOL and refined metals, accounted for half of all exports although less than 10% of employment and 20% of total value added. Mining economies like South Africa are typically highly concentrated, since most mining requires large producers. In addition, the apartheid system left South Africa with very limited production by small and micro enterprises compared to other middle-income countries.

While mining exports remained critical after 1994, most growth in value added occurred in finance, communications, retail and business services. These four sectors accounted for two thirds of all economic growth between 1994 and 2009. Growth in construction and mining-based construction was somewhat faster than in business services and retail, but the sectors themselves remained relatively small.

From the 1980s, the profitability of finance and communications rose rapidly. In contrast, the profitability of agriculture and manufacturing declined. The share of finance, communications and construction in profits (that is, net operating surplus) climbed from 19% in 1994 to 31% in 2009. The share of mining rose from 6% to 14%, but the share of manufacturing and agriculture dropped from 32% to 12%. (Calculated from Quantec EasyData standardised industry series)
Concentration remains pronounced in basic chemicals and metal refining, finance, retail and telecommunications. The resulting monopoly pricing on key inputs and wage goods makes the economy more inefficient and raises the cost of employment. Yet regulation proves politically difficult because these sectors are important for emerging black capital.

At the same time, domestic mining capital has largely reintegrated into international capital groups. The process has fragmented the historic conglomerate structure of mining and moved centres of control overseas. We need to analyse the implications of this for South Africa's long-term growth and competitiveness.

Concentration of ownership has been associated with very slow change in the racial composition of capital, leading to pressures on the state from emergent black capital. In 1996, according to labour-market surveys by Statistics South Africa, Africans comprised 22% of senior management and professionals in the private sector, and 36% in the public sector. In 2009, the share of Africans in the private sector had reached only 30%, compared to 56% in the public sector.

In effect, the national SOEs and parts of the public service function as a path into business for black entrepreneurs. Conflicting mandates result as they try to balance demands for narrow BEE, improved service delivery and commercial sustainability.

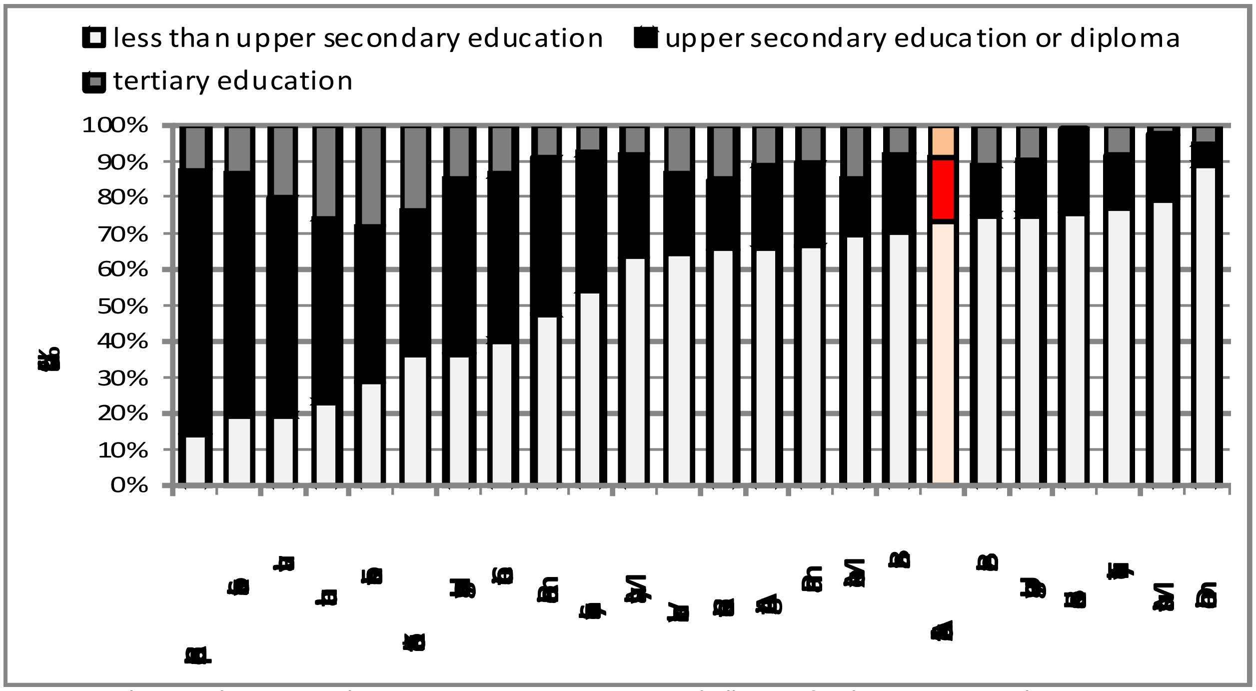
State capital includes the Development Finance Institutions and the Public Investment Commissioners (PIC). The PIC manages over a trillion rand in public service pensions with shares in major South African companies (for instance, 10% of Old Mutual). It should be a core lever for changes in the structure of production. But it clearly lacks a developmental agenda, instead mostly supporting narrow BEE.

2.4 Inequitable education

In the long run, investment in people – especially through improved education and healthcare – is critical for an equitable economy. In the event, inequalities in these services persisted after 1994, constraining both growth and equity.

As the following chart shows, in the '00s education levels in South Africa still compared poorly with other middle-income countries, especially those in Eastern Europe.

Table 3. Education in South Africa compared to other upper-middle income countries, mid-'00s



Note: *South Korea is an upper-income country. *Source:* UNDP, indicators for the Human Development Report 2009, downloaded from www.undp.org in May 2010.

The transition to democracy brought substantial improvements compared to the past. In mid-2009, the average African aged between 16 and 30 had almost ten years of education, compared to eight years for those older than 30. The average non-African of working age had over 11 years of education.

Even so, the educational system generally reproduces inequalities based on class and race. Many historically African schools, particularly in the rural areas, provide very poor education. Too often, they still have poor-quality educators, inadequate administrative support or insufficient teaching materials, including textbooks. Most cannot provide courses relevant to the modern economy, notably around design, computers, science and mathematics.

In contrast, about a tenth of the population enjoys first-rate schooling, rooted in the educational system historically established for non-Africans. Formerly white, Coloured and Asian schools accounted for 70% of matric passes in the mid-'00s.

2.5 Household Food & Nutrition Security – "Food for all"

Food and nutrition security for all is a foundational goal. It is a fundamental building block for human participation. Unlike many other poverty reduction interventions, food and water are essential to life, to economic participation and therefore inclusive growth. Nutrition is the key foundation that influences effectiveness of other interventions.

Household food insecurity, or hunger, has fallen dramatically since 2001. According to the General Household Survey, 20% of children and 25% adults said that they were hungry 'sometimes', 'often' or 'always' in 2002. By 2007, 12.2% of children and 10.6% of adults said they were hungry. This seems to largely be explained by the expansion of social grants. Some reversal in these gains is probable in the context of the economic downturn, with the loss of 770,000 jobs.

However, there is still widespread nutrition insecurity, or a "hidden hunger". It is much more significant than many realise. Although the experience of hunger has fallen, micronutrient counts have not improved dramatically, with the exception of folic acid. The population needs both sufficient calorie and nutrition intake to achieve potential. Although child hunger has fallen dramatically, indicators of under-nutrition have not noticeably improved. Stunting (inadequate growth in height) affects 1 out of 5 children, and improved marginally between 1999 and 2005. This is a sign of chronic malnutrition. One in ten children was underweight for height in 2005. There are signs of rising "wasting", which is an indicator of transitory food insecurity.

The National Food Consumption Survey of 2005 found that 52% of the population was hungry and that 33% were at risk. The HSRC drew together nutritionists and economists to ask what proportion of the population could afford a minimum basket of nutritionally balanced food. It found that 50% to 80% of the population could not afford to do so [1]. The critical difference is whether a person feels satiated (they did not go to bed hungry) or whether a person is consuming sufficient nutrients. This is sometimes called 'hidden hunger' as most people do not link their under-nutrition with their experience of being tired or ill. Many poor households mainly consume low nutrient starches so they feel full, and are not aware of a shortfall. However, it is a very serious gap that must be addressed if there is an intention of achieving 'inclusive' and 'developmental' growth.

Food insecurity is not only a rural question, since a large proportion of seriously hungry people live in the metropolitan areas, especially Johannesburg, Ekurhuleni, Cape Town and OR Tambo. However, there are rural dimensions, where for example, rural households pay more for the same food basket than in the urban areas.

Addressing household food and nutrition security is an extremely low cost way of underpinning livelihoods, well being and developmental growth. It will help bring down the future costs of health care and improve education outcomes. Inclusive growth is impossible without it. Solutions will involve a combination of social and economic interventions – including industrial interventions for food fortification and supplementation, food storage, food production, and pricing through the value chain.

2.6 Constraints on economic growth

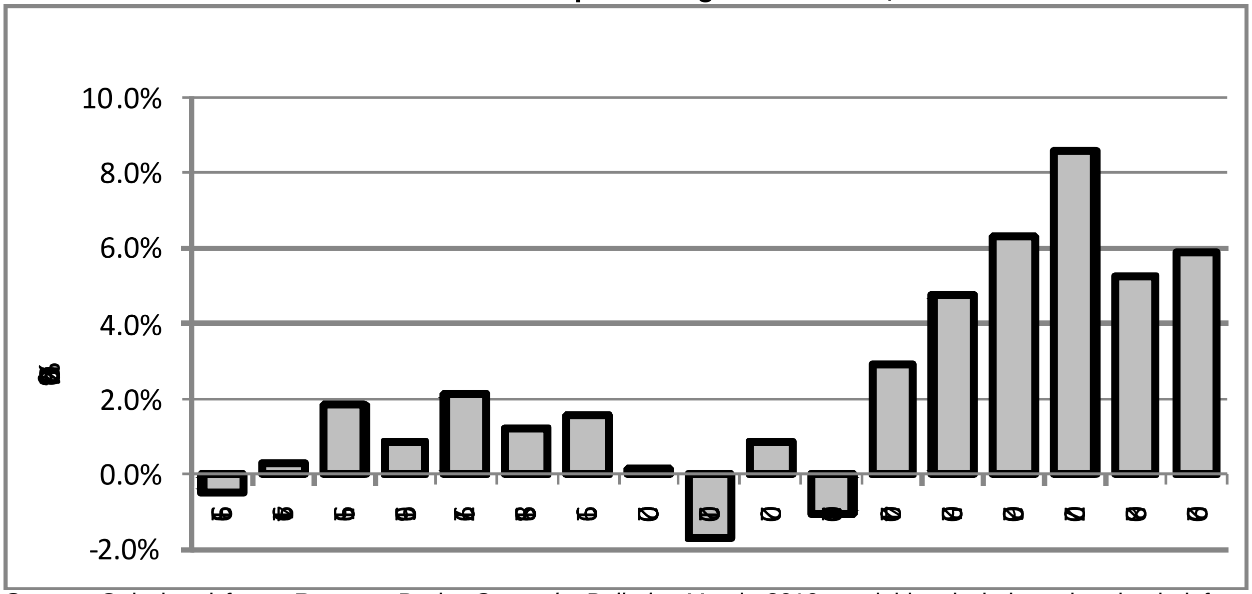
In addition to deep inequalities, South Africa faces four major obstacles to sustained growth: over-reliance on short-run foreign capital inflows; shortfalls in core economic infrastructure; high levels of emissions; and a difficult international environment.

2.6.1 Dependence on short-run capital inflows

Through the mid-'00s, growth was associated with a high deficit on the current account as a result of large inflows of foreign capital into the equity and bond markets. The credit crunch in late 2008 led to a sharp drop in capital inflows, but they remained high compared to the early '00s and began to recover in 2009.

[1] A minimum nutritious food basket would have cost R 262 per adult equivalent per month at 2005 prices, and we estimated that households spend between 35% and 70% on food as a proportion of their total expenditure.

Table 4. Balance on financial account as percentage of the GDP, 1990 to 2009



Source: Calculated from, Reserve Bank. *Quarterly Bulletin*, March 2010, and historical data downloaded from www.reservebank.gov.za

These capital inflows came at a heavy price.

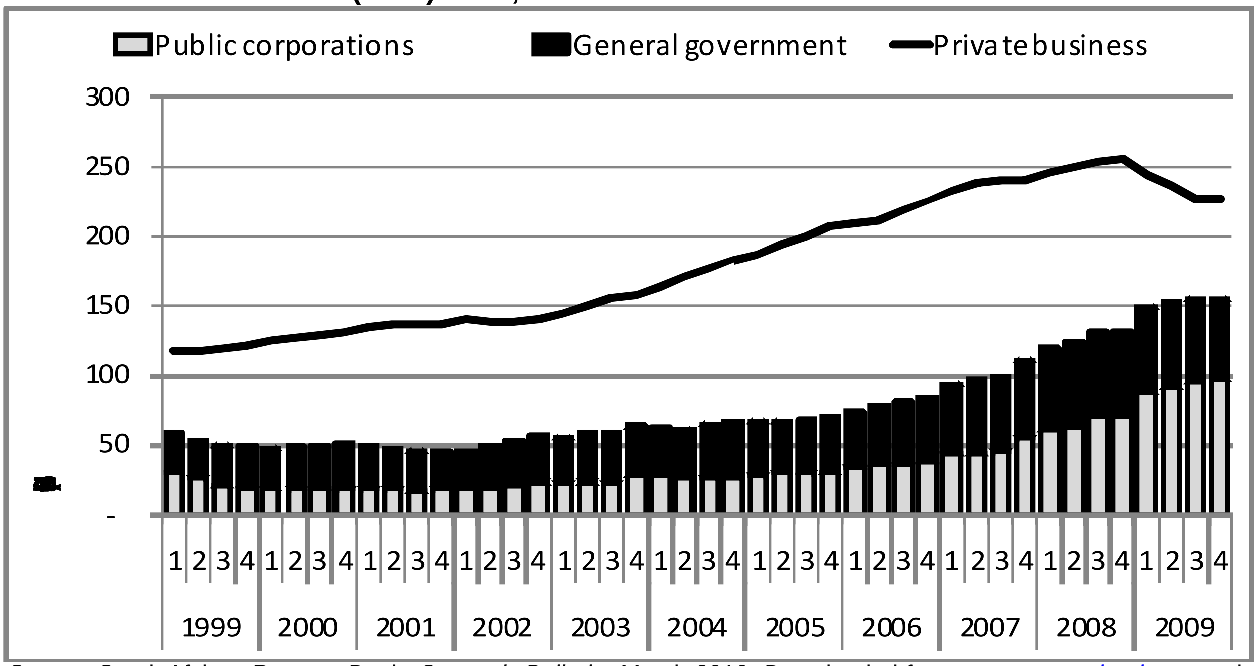
- They increased the value of the rand, limiting the overall competitiveness of the economy. By mid-2009, despite the global recession, the rand had climbed back to 2006 levels. As a result, economic output recovered more slowly because exports were more expensive and imports cheaper.
- The combined cost of dividend payments and interest paid abroad climbed from 1,8% of the GDP in 1994 to 3,2% in 2007. In 2007 and 2008, net income payments abroad accounted for some 44% of the deficit on the current account.
- Capital inflows were associated with declining private (although not public) savings, apparently because of a combination of increased dividend payments abroad with lower interest rates encouraging higher borrowing. Yet experience shows that only countries with high domestic savings rates have sustained long-run growth.
- Portfolio investment from abroad was highly unreliable, leading to unpredictable fluctuations in both the stock market and the value of the rand.

2.6.2 Bottlenecks in economic infrastructure

In the early ‘00s, South Africa experienced deteriorating reliability and rising costs for economic infrastructure. Essentially, it encountered a common post-colonial dilemma: the need to maintain bulk infrastructure and logistics while extending services to households that were historically deprived. In response, post-colonial governments worldwide, like South Africa, initially neglected depreciation in existing infrastructure.

For South Africa, the bill came due in the mid-‘00s, as growth put increasing pressure on electricity, rail, roads, water and telecommunications. In response, the state moved rapidly to spend more on infrastructure. Public investment climbed from under 4% of the GDP in 1994 to over 9% in 2009. It played a key role in the government’s counter-cyclical response to the international economic downturn.

Table 5. Gross fixed capital formation by type of organisation, seasonally adjusted at annual rates in constant (2005) rand, 1999 to 2000



Source: South African Reserve Bank. *Quarterly Bulletin.* March 2010. Downloaded from www.reservebank.gov.za in May 2010.

The sharp rise in public investment in economic infrastructure was critical for long-term growth. But the state still lacks a clear policy on how to finance it without imposing tariff increases that steeply affect production costs and poor households.

2.6.3 High emissions levels

South Africa has very high emissions for its level of economic output. This situation arises mostly because of the importance of the mining value chain, which tends to be energy intensive, rather than particularly dirty electricity generation – although the dependence on coal-generated energy doesn't help. For instance, the aluminium smelters use around 5% of the country's total energy supply, but contribute just 3% of net exports.

2.6.4 The international context

Efforts to address structural problems that constrain growth and sustain inequality are made much more difficult by South Africa's position in the world economy.

Economies that have grown rapidly over long periods have generally been situated in dynamic regions. Regional growth supports development of international logistics networks as well as providing markets. In contrast, South Africa is located in a less developed neighbourhood. The rapid economic decline in Zimbabwe in the '00s, in particular, reduced regional demand and made it harder to develop infrastructure (such as undersea cables) to the rest of the world. It also spurred migration into South Africa.

More broadly, the global crisis brings uncertainty about the course of development over the next 15 to 20 years. For the past 50 years, industrialisation in Asia depended heavily on demand for consumer goods, especially clothing and appliances, in the North. The current crisis points to sustained limits on demand from Europe and the U.S. While growth in new centres in the global South – notably China, India and Brazil – could prevent a long-run global slowdown, these economies are more open to exports of commodities and capital goods and services than to consumer manufactures. By extension, South Africa cannot simply copy Asia's path to industrialisation based on manufactured exports.

3 Toward a growth path for decent work

3.1 The overall strategy

The pillars of an effective long-term, sustainable and increasingly equitable development strategy are:

- Government fulfils core state functions that are required for sustained economic growth, especially through supportive fiscal and monetary policy, adequate infrastructure and social services and efficient regulation.
- Diversification of the production structure to maximize employment creation in the short and medium term while laying the basis for long-run, increasingly knowledge-based growth.
- Increased equity and social mobility through broader ownership of assets, career pathing and access to skills for workers, and more merit-based access to quality education, including tertiary degrees, as well as discouragement of conspicuous consumption by the rich.
- Social protection linked to active labour market policies to protect the poor and permit greater economic responsiveness. The cost of living and quality of basic services enables the majority to achieve an acceptable standard of living.

Focusing on the proposals here would require modifications to current government programmes. Amongst others:

1. In the short and medium term, industrial policy would emphasise labour-absorbing sectors geared largely to domestic and regional demand, with consistent but much more gradual encouragement of high-tech and dynamic industries as a more long-term aim.
2. "Vanity" projects that promise but cannot deliver a qualitative step up in some area of development would have to be eliminated.
3. Requirements for narrow BEE would be more limited, while incentives and support for employment equity, collective ownership, small and micro enterprise and local procurement would increase.
4. The state would have to secure greater alignment across all the spheres, agencies, SOEs and DFIs. SOEs and DFIs would have to become far more transparent in their management and pricing. SOEs in network industries achieve world class services.
5. Training and education systems would have to increase the emphasis on improving basic education in poor communities combined with measures to improve social mobility and legitimacy by ensuring more merit-based access to Model C and tertiary education. Access to quality further education and training and internships to improve employability would have to be dramatically expanded.

Development in itself changes possibilities and needs over time. South Africa requires a long-term strategy in large part because it is important to be clear about what is possible and necessary in the immediate, medium and long term. In the case of employment creation, for instance:

- In the very short run, and in the context of the downturn, substantially expanding employment will require that the state directly pay for it, through either through public employment schemes or tax and other subsidies to private actors.
- In the medium term, the state can encourage growth in sectors that will create employment on a mass scale – essentially the agricultural value chain, services and some light industry.

These sectors can generate some exports, but are mostly geared to domestic and regional demand.

- In the long run, as full employment is achieved, the state has to ensure an increasingly knowledge-based economy in order to raise productivity and ensure competitiveness.

3.2 Specific programmes

We here identify key interventions for a more equitable growth path. In each case, we suggest important phases.

3.2.1 Supporting sustainable growth

Sustained growth requires both supportive macro-economic strategies and micro-economic interventions to enhance the overall efficiency of the economy.

In the very short run, the core priorities are:

1. Maintaining a counter-cyclical fiscal policy, taking into account the constraints posed by the high budget deficit.
2. Finding ways to ensure a more competitive currency. As discussed below, a central debate is whether South Africa should tax short-run capital inflows.
3. Ensuring the timely completion of the Transnet and Eskom build programmes as well as the undersea cables now underway, and moving urgently to step up funding for maintenance of electricity and water at municipal level. The use of tariffs to pay for infrastructure investments must be reviewed to avoid excessive costs to producers and households while ensuring adequate funding.
4. Introducing a regulatory and project assessment process in government that ensures government programmes align with the decent work agenda and avoid unnecessary costs and delays.
5. Introducing measures that rapidly improve health and well-being. An important first step will be to strengthen household food and nutrition security. This can be achieved within a short space of time, at very low cost, but can make an important contribution to promoting preventative health care, returns to education, and labour market participation. The first steps would focus on ensuring that young mothers access social grants, vitamin A distribution, and effective food fortification.

In the medium term, the state should address other costs to the economy. Specifically, it should

1. Ensure that network industries move towards a global benchmarks in pricing and efficiency in support of industrial growth, employment and labour market participation. Foresight infrastructure needs both to align on-going expansion and maintenance with economic requirements and to identify where a step-up in quality is possible In telecoms, water, transport and energy.
2. Do more to ensure the skills and education systems meet economic needs. The skills development system should prioritise systems to identify and address genuine skill bottlenecks as well as the provision of real opportunities for ordinary workers on a qualitatively larger scale. In education the core economic needs are to upgrade education in poor communities and to substantially improve access to computer training, design, science and maths.
3. Develop a more efficient and effective healthcare system that reduces the high price of private care for skilled workers while ensuring more timely and quality care for the majority. Strengthen preventative health care through improved household food and nutrition security. In the medium term, this will involve education, competitive pricing through the value chain, people's restaurants, improved feeding schemes, improved food storage, and home food production, amongst other interventions.

4. Initiate a plan with clear benchmarks and timeframes to reduce the emissions intensity and energy intensity of the economy.

3.2.2 Transforming the production structure

Government strategies on the production process should reflect real needs and developments.

- In the short run, new employment creation can arise mostly from counter-cyclical expenditure and the public sector itself, including state-run employment and production schemes.
- In the medium term, it is possible to expand employment substantially in light manufacturing, the agricultural value chain and high-end services (health, education, software, BPO, etc.) Industrial clusters in key industries – such as mining inputs – should be strengthened. At the same time, growth in these industries should both provide new sources of exports and reduce the cost of wage goods, improving overall economic efficiency as well as food security and living conditions for poor communities.
- In the long run – say, 15 to 20 years from now - economic growth should derive mostly from knowledge-based industries. South Africa's strengths in this area centre on the production of capital goods and structural products for the mines and construction; heavy chemicals and pharmaceuticals; niche agriculture and agro-processing; and waste reutilisation. Ultimately, these sectors should contribute a growing share of exports.

Measures that can support a more labour-absorbing production structure in the short run include the Community Works Programme, the EPWP employment incentive and public employment schemes in general; the immediate introduction of preferential procurement points for local producers instead of imports; and employment subsidies, for instance a tax credit for new jobs or support to labour market matching services. In addition, the state could in the short term upgrade the conditions of farmworkers and hawkers, as particularly low-income groups, by helping farmworkers set up unions and helping hawkers access better supplies and markets.
In the medium term, the state can support employment creation through:

- A review of industrial and agricultural policy to ensure they support large-scale employment creation. Critical programmes include development of sector strategies for education, health and other high-level services (which can also compete on export markets); comprehensive support for agricultural smallholder schemes and market gardening, with a fundamental re-orientation of land reform and agricultural programmes to support them; and production of wage goods, including basic appliances, transport equipment and processed foods, targeted initially at South Africa and the region.
- Qualitatively upgrading SOE and government procurement capacity so as to give adequate lead times to local producers, enabling them to compete with imports.
- Integrated rural development strategies that take into account the actual potential of different parts of the country.
- A comprehensive regional development strategy to sustain economic and political stability in southern African as the basis for maintaining markets for South African goods.

While shifting the medium-term emphasis to employment creation, the state must lay the basis for long-term growth in more knowledge-intensive activities. A critical step is to ensure a step-up in higher education, research and innovation systems over a 20-year planning horizon.

3.2.3 Promoting equity

Strategies to enhance equity include:

- Strengthening the asset base of poor communities and households by providing housing and infrastructure with an emphasis on urban densification.

- Making big private business more socially accountable, for instance through competition policy, by amending the Companies Act to support greater transparency and broaden representation on boards of directors, and by requiring greater transparency and accountability from SOEs and DFIs.
- Supporting social mobilisation through the Community Works Programme and generally restructuring state delivery programmes to encourage collective action by communities.
- Requiring that a significant proportion of all places in Model Cs be allocated to households unable to pay the fees, based on merit and/or where the parents work.
- Discouraging conspicuous consumption by the rich through taxes on luxuries such as high-powered cars and homes as well as consistent messaging and leadership by example by the government and the Alliance.

In the medium term, greater equity of opportunity and wealth can be achieved through

- More representative higher education, with improvements in historically African universities' undergraduate education and greater access to historically non-African schools for students from poor communities through bridging programmes and radically reduced fees.
- Improved basic education in schools in poor communities, based on targeted upgrading of educators, buildings and access to teaching materials.
- A revision of Broad-Based BEE to encourage a qualitative expansion in collective ownership, including worker shareholding schemes, community trusts and active worker control of retirement fund investments. The co-op strategy should be revisited to ensure it provides far more effective support for co-operatives, especially in marketing, housing and services, in close collaboration with the labour movement, churches, municipalities and public employment schemes.
- A significant expansion in smallholder schemes in agriculture and growth in other SMMEs, especially in services and light manufacturing.

In the long run, the aim should be equitable access to quality education at all levels, irrespective of race, location or income level; collective ownership should account for a significant share (at least 20%) of assets in the formal sector; and small and micro enterprise should contribute at least 10% of the GDP.

3.2.4 Social protection

Social protection aims primarily to address poverty and to minimise the impact of economic downturns and structural change on workers and the self employed.

Currently, social grants for children, the aged and disabled form a critical element in reducing poverty. They should be guaranteed to increase at the rate of inflation. Unemployed adults, however, are only eligible for public employment schemes that currently reach at most one in four unemployed people for a few months at a time.

In the very short run, the expansion in Community Works Programmes and the EPWP Employment Incentive can both address this gap in coverage and empower communities to identify and meet their needs. The expansion of this programme could target, say, the poorest 40% of wards by 2015, with adequate funding for both the establishment of strong community structures, non-governmental organisations, as well as long-term although low-level employment on a large scale.

In the medium term, a social protection system that supports equitable economic growth would require:

1. Measures to enable lower-level workers to take advantage of changes in the structure of the economy especially by providing skills development as well as improving access to the UIF. This would require rigorous implementation of the SAQA/SETA/ABET systems based on a thorough review.
2. Development of social funds to enhance household savings on the Singapore model. That is, the retirement fund system should be linked to a higher savings levy for middle- and upper-income workers that could be used to finance only education and housing in addition to retirement.
3. Identify low cost, high impact interventions that dramatically improve well-being and economic inclusion. A first step should involve more attention to improving household food and nutrition security. Food security is a key outcome of the performance targets to be met by the Minister of Rural Development and Land Reform. It is necessarily a multi-sector intervention, requiring commitments by both the social departments such as health, education and social development, by the economic departments such as the dti, EDD (competition commission), DAFF and DRDLR, as well as by the National Treasury and the Presidency (Planning and M&E).

In the long run, the aim would be to reduce poverty to the international norm of 10% or less.

4 Some debates

4.1 The balance of power and ownership

Any effort to bring about a more equitable economy affects but must also operate within the balance of power in the economy. That means that there will be lobbying and push back from existing centres of power as well as the potential beneficiaries of alternative policies.
More radical proposals inevitably bring greater risks, specifically around capital flight, loss of skills and destabilisation of production structures. We need to assess these costs against the promised gains. A particular problem is that business typically exaggerates the potential risks and costs, while proponents invariably ignore or downplay them.

A specific issue on the table is nationalisation of the mines and of land. Debates on this subject are vexed by the fact that nationalisation takes many different forms. We need to ensure that proposals become more specific about (a) who would end up owning the assets, (b) who would manage them, and with what purpose, (c) what would be the costs to the fiscus and the economy, and (d) what would be the risks of failure as well as the benefits of success.

The Zambian experience with nationalising the mines points to some of the risks. Zambia nationalised the copper mines, which supplied 90% of its exports, in the early 1970s. It ended up hiring back the multinational copper companies to manage them. As international copper prices fell, the companies enjoyed guaranteed management fees while the state had to bear the losses to the mines.

A second ownership debate has emerged in the context of BEE. This debate relates more to what we understand under equitable ownership. Do we mean that capital should become more representative, with more black managers and owners? Or do we mean that more South Africans should have an ownership stake in the formal economy?

The dti's Broad-Based BEE policy seeks to balance these claims by providing points for
1. Narrow BEE that benefits black investors
2. Skills development and employment equity to benefit workers

3. Support for black-owned small and micro enterprise
4. Corporate social investment that generally benefits black communities.

Despite these formal requirements, implementation of BEE especially in mining and agriculture has tended to focus on empowering individual black investors by compelling white-owned companies to sell them shares. There has been a specific attack on collective ownership, through employee ownership schemes and pension funds, as being unable to ensure black control even though on paper they promote equality. As a result of this situation, companies now end up spending more to bring in individual black investors than they do for the broad-based elements of BEE.

A concern has also emerged that BEE policies require government agencies to favour black-owned importing companies over local producers. That approach undermines efforts to expand employment and reduces the stimulus effect of counter-cyclical fiscal policies.

BEE policies could more effectively support overall economic equity, rather than just creating a more representative capital class, through:

- A requirement that all government agencies consistently communicate and incentivise all the elements in broad-based BEE, instead of prioritising individual black ownership and management
- Revising the broad-based BEE codes to favour local producers, even if white owned, over importers, and ultimately linking BEE to sector strategies geared to large-scale employment creation
- Revising the codes also to explicitly prioritise collective ownership by workers or communities, instead of favouring individual entrepreneurs.

4.2 The structure of production

There is broad agreement within the Alliance and the state that agriculture and light industry can generate employment. The government has identified nine broad areas with potential for employment creation - infrastructure development; climate change and the green economy; industry, specifically the traded-goods sector; knowledge economy activities; rural development, agriculture and agro-processing; tourism and BPS; social economy development; the mining value chain; and the public sector.

Disagreement has emerged around the following issues.

1. Can or should the state do more to directly support employment creation and growth in the service sectors, which include for instance health, education, finance, information and communications, transport, security and business services? Some economists, and in some interpretations IPAP 2, argue that these sectors are inherently unproductive. By extension, the state should focus on expanding manufacturing, mining and agriculture even though they do not generate most new jobs. Other economists say that only some of the services – like some industries within manufacturing – should be considered unproductive; these include finance, advertising and military production. In this view, the state must do more to support growth in productive services because they are relatively labour intensive and therefore can create more employment.
2. How should the state divide its support between improving productivity and employment creation? In the long run, competitive economic growth requires more knowledge intensive and efficient production. As productivity increases, however, less labour is required for each unit of production, so only rapidly increasing demand will ensure higher employment

creation. In the event, the lion's share of industrial subsidies currently goes to the auto industry, which creates relatively few jobs.

3. What should government policy be on mining? In the long run, the economy has to move away from its dependence on mining-based exports – but that cannot be achieved overnight. Currently, government has essentially emphasised beneficiation, narrow BEE and improved environmental and safety outcomes. The state has made few commitments to providing the infrastructure, skills and policy frameworks required to ensure the industry continues to grow and diversify. The results became clear in the electricity crisis, when the mines shut down due to a shortage of electricity.
4. What should be done to improve the quality of work in marginal sectors, notably agriculture, lower level services such as domestic work and security, and the informal sector, where most employment occurs in spaza shops and street hawking?
5. What should be done to reduce the energy intensity of the SA economy?

4.3 Settlement patterns and rural development

Debates have also emerged around the rural development strategy, which forms a priority in the 2009 Manifesto. The main issues are:

- Is it possible to increase economic activity, employment and incomes in the former Bantustan regions? Alternative, are these areas so overpopulated as a result of apartheid that substantial out-migration to existing economic centres is unavoidable?
- Should land reform aim at creating livelihoods on a mass scale through smallholder schemes, as envisaged in the Polokwane resolutions, or should it benefit a smaller group of black commercial farmers, which is the likely outcome of the current demand-driven subsidy programme?
- What is the role of commercial agriculture in land reform? How do we balance the desire to sustain and grow agriculture as a major export industry, source of employment and food against the aim of achieving more equitable land ownership?

4.4 The state and the economy

Implementing a more effective development strategy requires a developmental state, in the sense of a state that can co-ordinate all its efforts around core developmental priorities and implement its programmes efficiently.

A particular problem is that groups with economic power can lobby the state, or even corrupt officials, to achieve favourable policies at the cost of broader transformation. The pressure comes mostly from large companies, backed by threats of disinvestment, and from black entrepreneurs, who use their personal contacts and the claim of equity to obtain political back up and funding.

For South Africa, specific challenges in this connection are:

1. Setting up legitimate and responsible processes to identify developmental priorities that are realistic and sustainable. That means they must be acceptable to the ANC's core constituencies while managing business in ways that avoid a capital strike.
2. Continuing to bolster monitoring and evaluation in order to ensure that all agencies, including state-owned enterprise and financial institutions as well as the spheres of government, stick to core priorities without being lobbied into projects that unnecessarily benefit the privileged or that cannot really deliver the promised benefits to the majority.
3. Making the economics departments respond to the concerns of capital appropriately and effectively by eliminating unnecessary costs and securing the provision of key inputs like infrastructure and skills without compromising measures to bring about greater equity.

4. Reforming programmes so as to strengthen community organisation and responsibility rather than weakening it. Above all, government programmes should systematically delegate resources and capacity to communities and empower them to identify and meet needs ***collectively***, rather than setting up delivery systems that target individual recipients or households.

Achieving these aims requires genuine political leadership that can direct economic policies to serve the majority and support collective action while avoiding unsustainable interventions and rhetoric that would undermine long-term development. One precondition is broad-based political and economic education through the ANC branches.

4.5 Monetary policy

Fiscal policy has been reasonably expansionary, as measured by the growth in expenditure, for most of the '00s, and strongly countercyclical since 2008. But debates remain as to whether monetary policy has been sufficiently supportive of equitable growth.
Specific debates include:

- Whether interest rates are too high, stalling investment and consumption. It is true that both nominal and real interest rates are higher than in the global North. What is the impact on the economy, employment creation and equity?
- Whether the main reason interest rates are relatively high is inflation targeting. This policy requires the Reserve Bank to use its policy instruments – mostly the interest rate – to keep inflation within the 3% to 6% band set by the National Treasury. Arguments for inflation targeting are that it stops the Reserve Bank from holding down inflation at any cost, while signalling private investors that inflation will be controlled. Critics argue that inflation targeting inherently prioritises inflation over equitable development and employment creation, in contrast to the ANC's stated aims.
- Whether the state should intervene to stabilise or reduce capital inflows. Short-term capital inflows permit increased and lower-cost imports, both for consumption and investment. The consumer goods imported include low-cost clothing, petrol and food as well as a significant share of luxuries, especially cars. Investment goods include inputs for the infrastructure build programme. In either case, the capital inflows help sustain imports at a lower cost, holding down inflation. But they also push up the value of the rand, which makes exports more expensive. In addition, the increase in imports constrains demand for local production, and consequently employment creation.