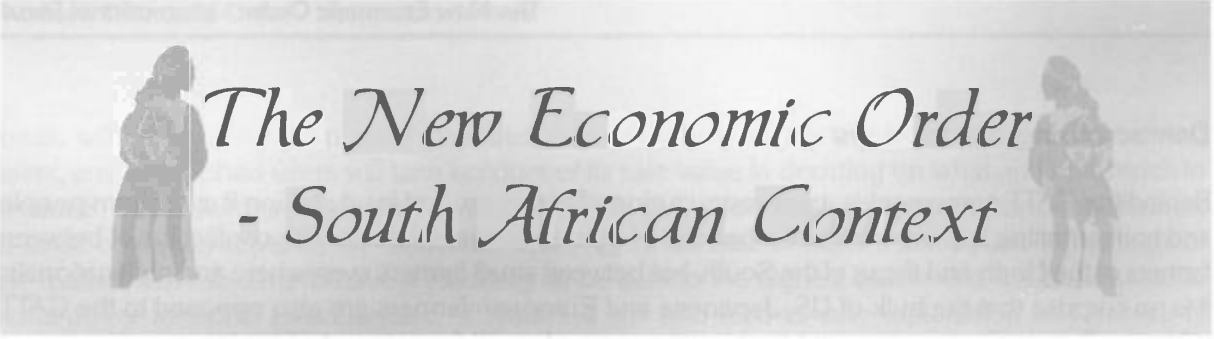




The New Economic Order - South African Context

IMPLICATIONS OF THE NEW MACRO-ECONOMIC FRAMEWORK (GEAR) FOR DEVELOPMENT IN SOUTH AFRICA

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The subject of my talk is about the Government's Macroeconomic Policy, the growth employment and redistribution programme which was adopted last year (GEAR). In fact this programme was only adopted fairly recently and I think it's too early at this point to say what the actual impact on the ground will be in terms of development. All I could do at this point is to basically say that I think the kind of study which Dave Sanders and colleagues have carried out in Zimbabwe is precisely the kind of monitoring which I think we need in South Africa. I think that the bases and resources exist to carry this out.

I say that because, as the Chairperson indicated, there is not only one document that is meant to inform Government's economic policy, there is also the Reconstruction and Development Programme, (RDP) which was the basic programme on which the Government came to power. I think that the RDP, defined a whole series of projects, programs and priorities for Government over the five-year period. It defined an approach toward the issues of growth and development. It basically says, and I quote from the document :

"The RDP is based on reconstruction and development being parts of an integrated process. This is in contrast to a commonly-held view that growth and development or growth and redistribution, are processes that contradict each other. Growth, the measurable increase in the output of the modern industrial economy, is commonly seen as the priority that must precede the development. Development is portrayed as a marginal effort of redistribution to areas of urban and rural poverty. The RDP breaks decisively with this approach."

In other words, I think what the RDP was saying, (and I think that this vision remains valid in the case of South Africa and most other developing countries) unless there is sustainable economic growth, which is an increase in the output of goods and services, there will not be sustainable development, that is an improved standard of living of the people. Simultaneously, unless there is development-orientated growth, the conditions will not be created for sustained and sustainable growth in South Africa. I think that the basic issues of redistribution, development and improving living standards of the people in the country, are absolutely essential to creating the conditions that are necessary for economic growth.

Please note that this paper is an edited transcription of the paper delivered at the conference since Rob Davies' paper was not available at the time of printing.

What I'm actually going to clarify then, rather than talk about the impact or implications so much, it is quite important to understand at least two or three things about the GEAR. Firstly, I am going to talk about the context under which the GEAR was adopted, secondly, the main features or elements of GEAR, and thirdly some of the issues which have been posed by the GEAR.

First of all, the context. I think that this conference is quite well-named in the sense that very clearly the new international order or new international disorder, as it is sometimes known, has clearly impacted on South Africa and has influenced the shape of the GEAR, there is no question about that. I think it's also important to understand that the GEAR was intended to address at least two significant problems in the domestic economy and was therefore partly driven by at least two domestic considerations.

The first one was that it was recognised at the beginning of 1996, and it was said in a speech by the President, that what South Africa was experiencing and had experienced in the year and a half since the elections in 1994, was this phenomenon of jobless growth. In 1995 for the first time we actually had an increase in economic growth above the increase in the growth in population. It was the first time in about two decades. If we look at the employment figures, the employment growth in 1995 was only about 0,7%, much less than the rate of economic growth, and in fact the number of new jobs that were being created was much less than the number of new entrants onto the labour market. If you look at what happened in 1996, the situation got worse. According to the Reserve Bank quarterly bulletin for September 1996, and I quote from it:

"Relentless cost-cutting by South African producers to maintain and expand market share in an increasingly open and competitive business environment had contributed to a fall of 2.5% in private sector employment since the beginning of the current recovery in economic activities."

That was in 1993/1994. So, there has actually been a contraction in employment and what is happening is that we are producing a jobless growth. The GEAR was partly based on a series of economic modelling exercises, whose base is the subject of enormous debate. I don't want to go into that, but the base scenario which I think most of us would say is essentially correct points to two things: firstly that the kind of growth which seemed likely from projections from 1995 into the next five years would not yield the kinds of job creation that would be necessary to absorb the number of new entrants into the labour market. From the beginning of last year there was a whole discussion

and debate about what was necessary to achieve a higher rate of growth and a higher rate of job creation. The second thing was that of the budget deficit. The inherited budget deficit left by the old regime is very large, and naturally is impacting on the size of the public debt. The public debt in 1994 was about R190 billion. Although the deficit was coming down, the rate of reduction was only about half a percent every year, and there was an addition to the public debt of the year. It was projected for this year, before the GEAR, to have been likely to lead to a public debt



A local panel discuss the impact of the New Economic Order in the South African context. From left: Patrick Bond, Rob Davies, Pauline Khuzwayo (chairperson) and Brian Ashley

of the size of about R311 billion which would have resulted in debt service costs of about R34 billion. Public debt is a problem that anybody who wants to propose an alternative to the GEAR has to take very seriously how do we deal with this issue? I actually do think it's a real issue.

The second factor is improving efficiency of delivery and effecting reprioritisation. It has often been said that the total expenditure priorities such as health and education, when you examine them in the overall terms as a percentage of the RDP, they are not particularly low by the standards of comparable countries. The major problems are the way in which this money is spent is not according to the kinds of priorities that are defined in the RDP vision. They are also not yielding the kind of results in terms of improvements in the human condition that are considered necessary. There are many, many examples and I think that a sense of this as an increasing problem was also underlined by GEAR.

The third factor very clearly is the impact of the international order. We've heard a lot of discussion about the International Monetary Fund (IMF) and World Bank and about going to them and taking out a loan, subject to conditions and so on and so forth. Perhaps what South Africans did not understand was that there are probably many routes to subject oneself to the same kind of pressures in the newly emerging global order. Making a mess of your macroeconomic management and having to go cap in hand to the IMF is not the only route in which we can come under these pressures to conform to the policy agenda, which is known as the "Washington Consensus". We are living in an era of what is generally known as "globalisation" and although I think that these trends were probably evident from the end of the Second World War, in recent years they have taken on new forms and acquired new meanings.

Particularly important as a part of this process for us I think, has been the globalisation of currency markets. The integration of currency, that is foreign currency markets into a single, globalised system, is also facilitated by the spread of computer technology. I think very few South Africans noticed our integration into this. It came at the end of 1994 when the Financial Rand was abolished and trading for non-residents in the Rand currency became a possibility. We were no longer shielded from the pressures of these market trends through the Financial Rand mechanism, and basically what happened was that this fuelled an in-flow of capital which was quite substantial during 1995 and up to the early part of 1996, partly sustained by the Reserve Bank's policy of holding up very high interest rates. The thing that we learned thereafter was that this was basically short-term in-flow of what is known as "hot money". When perceptions changed and particularly when there was a perception that the Rand was over-valued, there was a massive out-flow of this foreign capital, which provoked a currency crisis and a decline in the value of the Rand. Without doubt this is one of the most important, you can call them discipline or subordination mechanisms, that exist because coupled with it was the message that foreign investors and the foreign currency markets had no confidence in the Government and that there was a need for a new policy.

All of these firstly, are actually built into the GEAR and influenced it in a number of different ways. The GEAR was based on a modelling exercise; a team of economists got together with assumptions of their models, which are not actually well-known, and this itself has been a point of controversy. They produced a level scenario which says that "business as usual, carry on as in the past," would not yield the kind of job creation that was necessary, and in order to achieve this level of job creation it was necessary to push up the growth rates from around the plus/minus 2% average (which was forecast under business as usual,) to 6% by the year 2000. So they produced a series of policies which were intended to yield that result.

Here are the main policies. The first and most important one is that it envisages a reduction in the budget deficit from the 5.1% of gross domestic product, which was budgeted for the 1996/1997

budget to 4% in 1997/98. Government has indicated that this target will be reached and I think we can rest assured that the budget deficit, for this year is not likely to be more than 5.1%. I also think that it's a foregone conclusion that the budget which was presented in March this year will not budget for more than 4%.

Secondly the GEAR envisages an acceleration of already planned tariff reductions. There was a process of reducing tariffs, partly in accordance with the World Trade Organisation requirements and partly domestic policy. Instead of reducing them to a level of 8.8% of imports, the GEAR envisages reducing them a bit further, to about 7.6%.

The next thing it envisages is a so-called "National Social Agreement". We hear a lot less of this now but it is one of the elements of the document. Government was to commit itself to social delivery under the RDP, and the GEAR document at least on paper, commits itself (or re-commits itself) to the achievement of many of the RDP targets. Among other things, it's meant to be part of a national social agreement with labour that would commit to a number of these targets. In return for this there was some envisaged wage restraint, I think we've seen much less of that. There were also supposed to be tax incentives in return for price restraint. The tax incentives have been introduced, but I don't remember when business committed itself to price restraints.

Then there is an envisaged reduction in interest rates and I think there are a couple of other things which are quite significant here. The model envisages a 3-fold increase in public sector and parastatal investment: although it talks about an overall reduction in the budget deficit, it does actually talk about an increase in public sector investment, including such things as municipal infrastructure programs and so on. There is a re-commitment to the national framework agreement as far as the restructuring of State assets is concerned and then there is a declared re-commitment to many of the RDP deliveries.

Let me move on from the contents to describe some of the implications. The first point is that the model does not guarantee that, if we adopt the policies which I have described, we're going to get 6% growth and 400 000 new jobs by the year 2000. The model rests on a series of assumptions. One of these is that there will be something like a 5-fold increase in private foreign direct investment. Basically it is driven by a number of forms of investment, including public sector investment. It also hopes to draw in additional foreign direct investment. It is dependent on being attractive to foreign investors and that this would contribute towards an increase in foreign direct investment.

It is quite important to see how it has been received. It has generally been welcomed by many of the major business circles, the IMF, the World Bank and so on, but welcomed as a first step. We are in a period in which the impact of globalisation, the strength of these institutions are likely to be felt in the form of increasing pressures to conform to the agenda of the Washington Consensus. I think we can clearly see which issues are immediately on the agenda. There is strong pressure to end remaining currency control, there is only currency control for residents and there is very strong pressure to end exchange control. There is a recognition that this will be likely to engender an outflow of capital and so the suggestion is made that a pre-emptive loan from the IMF might be appropriate to finance such a move. There is definitely pressure to move in this direction.

Another demand which has been heard with increasing frequency is that there needs to be a more vigorous and more determined privatisation programme than the National Framework Agreement provides for. The third important issue is the demand around so-called labour market flexibility. This means that large parts of the working force, (and I think that if we didn't have such a strong trade union movement it would be the whole of the working force) should be exempted from the provisions of the Labour Relations Act and the protections therein, basically, on the assumption that if it's easier to fire workers somehow or other, more businesses will hire them.

In conclusion, I would like to outline a few issues that need to be looked at and engaged with. The first of these is around the budget issue. As I said earlier, Government has very firmly committed itself to the overall deficit reduction target and I think that will be met. There are two important possibilities. A reduction in the deficit, which involves a reduction in State expenditure, can either lead to across-the-board-cuts in all major sectors (including sectors which are priorities) or it can become a spur towards a re-prioritisation. What is beginning to emerge now is a stronger debate in South Africa which needs to be given additional voice. Reform towards greater transparency in the budget process and towards an ability to set priorities in accordance with the agreed national priorities of the country as a whole, is long overdue. We are going to be seeing much more debate and discussion around the necessity for budgetary reform this year. The possibility is also there, within the GEAR framework, to take up the questions of RDP delivery. The reasons for the slow delivery in many of the social services, is that the programme itself envisages that there will be improvement in this regard. The programme is intended to be a macroeconomic framework to make the RDP more effective. The social impact of the programme should be measured through the kind of careful research of the sort we saw in the Zimbabwe case, not only in the health sector but in the other sectors. Such research that could contribute very usefully to a debate about the likely impact.