



## NEED FOR AN APPROPRIATE ECONOMIC POLICY FOR SOUTH AFRICA

Business Day Article

18 June 2024

The dust is settling. SA has a new parliament.

Though many did not expect the results of the 2024 elections to create the kind of a government we have ended up with, we should be hopeful that the executive, in the different spheres and no matter which political parties it eventually includes, can get the economy back on track.

The SA economy has not been managed well since the recall of former president Thabo Mbeki, though the problems actually started during the later years of the Mbeki presidency. It took far too long to replace the Growth, Employment & Redistribution (Gear) policy after the economy had stabilised from the recession of the dying days of apartheid.

Then, when the government eventually settled on the Accelerated & Shared Growth Initiative for SA (AsgiSA) it was promptly killed off by the Jacob Zuma presidency, and replaced with the flimsy National Growth Path (NGP), which was in turn immediately dispensed with in favour of the National Development Plan (NDP).

So, SA has not had a comprehensive economic policy since the Gear years. AsgiSA had promise, but was too short-lived to deliver any real dividends. In per capita terms, which is the ideal manner to assess improvements or deterioration in the standard of living, the AsgiSA period (2006-2010) produced a 1.76% annual growth rate, while during Gear the per capita rate was 1.58%.

Any country that is serious about socioeconomic development has to ensure a higher GDP growth rate than that, especially GDP per capita. Economic policy is the critical factor to achieve that goal — it must aim to grow the economy sustainably and ensure efficient distribution and redistribution of resources.

In the SA context, given the history of the country, an appropriate economic policy should modify the structure of the national economy. Recent research and academic publications, including a new book on the SA economy that I co-authored with researchers Santos Bila, Mduduzi Biyase, Shonisani Chauke and Sodiq Arogundade, *South African Economy — Trails and Possibilities*, make clear the fundamental challenge facing the SA economy has to do with its structure and lack of, or unclear, economic policy.

There have been several attempts to improve this situation, albeit with limited success. As a response to Covid-19, the sixth administration unveiled an Economic Recovery & Reconstruction Plan (ERRP), which aimed to mitigate the effects of the pandemic on the economy, as well as other existing challenges.

There were eight key elements: localisation, infrastructure development, energy reform, gender equality, job creation, business support, economic reform and agriculture enhancement. This was a commendable intervention by the government, but it was insufficient as an economic policy.

Acknowledging the economic challenges the country continues to face, the Treasury subsequently proposed an economic strategy that included various reforms that aimed to support labour-intensive growth, promote economic transformation and make SA a globally competitive market. It is from this perspective that the Treasury's economic strategy deals with what it terms the "fundamental building blocks" for long-term growth.

Gear was in effect a macroeconomic stabilisation policy. AsgiSA, coupled with an attendant skills development programme, had many parts that amounted to a relatively comprehensive economic policy, though the diagnosis that informed it was questionable. The binding constraints AsgiSA was said to be responding to were debatable, while the NGP and the NDP cannot be viewed as economic policies.

So, what could be key aspects of an economic policy for SA going forward? At the centre of such a policy should be the restructuring of the economy. This point has been made by many people, and the government has tried since 1994 to address this challenge, including through fiscal policy and tax reforms and interventions to address the minerals-energy complex.

All of these efforts have had less than optimum outcomes, and Covid-19 actually reversed some of the gains. Similarly, the poor management of public finances and inefficiencies in the public sector have compromised government efforts to restructure the economy.

There are specific areas that are critical to an inclusive economic policy. In particular, small, medium and micro- enterprises (SMMEs) as well as the informal sector have the potential to grow the economy while ensuring inclusive development. Another area that has great potential is agricultural development and agrarian reforms that contribute to economic development.

An inclusive industrial development strategy will go a long way in facilitating economic development for SA. Such a strategy has to take into account climate change implications and the envisaged energy transition.

In our new book, we use the phrase "inclusive industrial development strategy" because we think such a strategy (not a policy per se) would have to encompass various aspects of industrial development that can ensure economic growth and inclusive development.

For all associated interventions — be it for SMMEs or for agricultural development — black African youth and women should be prioritised given the political history of the country.

It is also important to emphasise that economic policy alone is unlikely to ensure the inclusive development SA needs. As argued elsewhere, social policy is necessary for SA and it should be comprehensive and work in tandem with economic policy to ensure inclusive development.

Similarly, there is a critical role for labour market policy because the creation of jobs should be part of economic development endeavour, particularly for a country with such a high unemployment rate. In any case, labour market policy would need to be tailored for the energy transition because many people stand to lose their jobs through decarbonisation, and new (green) industries would require a different set of skills.

Lastly, SA should be playing a role in the economic development of the southern African region and leverage off the African Continental Free Trade Area (AfCFTA) for the inclusive socioeconomic development of the country.

All the various interventions, including dealing with weak public sector productivity and reversing corruption, are important, but without an economic policy (and comprehensive social policy) South Africans' wellbeing is unlikely to improve.