CLOSING PANEL: PATHWAYS TO GROWTH AND EMPLOYMENT IN SOUTH AFRICA

Rashad Cassim of TIPS said he had been amazed at the convergence of ideas there had been during the forum and the mutual identification of what the key research issues were. He said he had detected a feeling among policy makers that they wanted more policy input into this kind of conference and the direction of research away from pure econometrics and methodology.

Elias Masilela, the Acting Chief Director at the National Treasury, said the policy and research debate of South Africa was a function of what the demands or the needs of society were against what was delivered. When one looked back to 1994, three broad key objectives were set under the RDP, which GEAR later set out to achieve. Despite the failures that inevitably occurred, the key objectives of the macro- economic policy remained pretty much in place. However, government had discovered that there was a very close relationship between growth, investment and savings. One of the major weaknesses identified had been insufficient savings, which had led to poor economic performance.

Growth had tended to fall within a very narrow band of between 1% and 4%, at the most, and recently the economy had not been able to break beyond 3% to 3.5%. Other economies which closely resembled the South African economy had tended to have much broader growth bands. This raised the question of why some countries could break out of the 3.5% growth rate and why South Africa could not achieve the 6% growth rate which GEAR had targeted. One of the key reasons identified had been the poor performance of the fiscus whereby historically the South African government had been running deficits of a very poor quality. This had basically meant that the country had been dis-saving. There had been some form of a turnaround following the adoption of a consistent macro-economic policy framework, which was turning the dis-savings trajectory upwards.

Internationally, there had been a strong relationship between savings, investment and growth and where one typically found high savings and high investment, growth tended also to be high, whereas when one looked at a country like South Africa, it was not doing well on the savings and investment front.

Government had tried to put together a host of policies to attract, or try and influence, savings in a particular way. But because of the savings:investment imbalance, the country had ended up with high real interest rates, low investment, low growth, high unemployment and social imbalance. Government's own performance with regard to investment had not been good and there was now a conscious policy decision to push it up to between 3% and 4% by the year 2003.

Despite these failures, a very strong foundation, particularly from the fiscal point of view, had been laid from which to address key issues such as ensuring a healthier deficit position that was driven more by capital rather than by recurrent expenditure. This should help the economy break beyond the 3.5% growth ceiling. What had been achieved was not only a reduction of the budget deficit, but an improvement in the quality of the deficit.

Many people had argued that the reduction of the budget deficit and the failure to deliver on the capital side of the budget was because of stringent macro-economic policies. However, Masilela said he would like to look at this from a different angle, and say that fundamental to this had been a function of poor expenditure and lack of capacity which had resulted in many departments ending up with huge backlogs in their capital programmes. On a day-to-day basis, this was a framework that tended to occupy Treasury officials as they put together the Budget. In terms of the current Medium Term Expenditure Framework (MTEF), the key objectives, or the key drivers, for allocations were economic and social infrastructure, social services, the criminal justice sector and local government demarcation. It was believed that social imbalances could best be addressed at the local government level and the recent restructuring would enable government to deliver even more effectively than it had been able to in the past. Day-to-day decisions were based on equity, emerging risks such as HIV/Aids and the quality and the need to maintain capital infrastructure for future productivity.

On critical policy research areas that needed to be considered, he said it would be important not to disrupt the stability achieved in the macro-economic framework. Inflation targeting had become one of the critical factors as had running a sustainable fiscus. So monetary and fiscal policy were now working very closely together to make sure that one did not disrupt the other and to ensure continued macro- economic stability, however, there were areas of concern. While government believed that it had done almost everything possible to encourage investment, investor sentiment was negative instead of being positive, particularly with domestic investors. The question being grappled with now was how this could be turned around. Quite clearly one could not hope to attract foreign direct investment if domestic investors were not confident in the economy. It was a very difficult situation. Financial sector reform was another critical area in which research and policy work was being undertaken to ensure that steps were taken to minimise, or get rid of, the systemic risk which was perceived to be inherent in the market.

Government would also like more research into further trade reform and greater labour market efficiency. Treasury had been concerned about production costs, which linked into the inflation targeting debate and which were a very serious threat to achieving set targets. Treasury would also like to see better co-ordination between government departments, especially given claims by business that it was receiving mixed signals from government. They were not sure whom to listen to. A co-ordinated approach in policy making would hopefully enhance the efficiencies of government and the efficiencies of decision making on the part of the private investor.

All these initiatives were aimed at breaking beyond the 3.5% to 4% growth ceiling. If South Africa was unable to achieve that, then the possibilities of reducing employment and addressing poverty were only being compromised. David Kaplan, the Chief Economist of the Department of Trade and Industry, said that while it would be wrong to say South Africa faced a crisis, it had experienced a period of missed opportunities. It had an extremely low growth rate relative to what was happening internationally and was probably currently growing at about under 2.5% a year while other economies similar to ours were growing at above 4%.

If South Africa was not going to grow when the world economy was growing, when would it grow? If not now, when? And the problem was not just with the limited growth, the problem was clearly with the character of that growth. It was very clear that the number of jobs per unit of new investment had fallen sharply while exports were increasingly capital and skill intensive. Exporters were not making use of the factor that South Africa had in abundance, that is, unskilled and semi-skilled labour. It was clear that while liberalisation had, in aggregate, been mildly job creating, there were many examples of firms that were gearing up for the export market by reducing their labour forces.

The big losses in employment had been in primary extractor sectors, exactly those areas that were previously regarded as the locale of comparative advantage. So in mining and agriculture, in particular, there had been very significant labour losses of perhaps close to a million. Even in the heartland of manufacturing, it was clear that there were job losses. Over the last five years, job loss had been almost 2% a year and this was not just for the manufacturing sector. If one took the sub components of manufacturing, it was very hard to find any sectors that had any appreciable employment growth.

So it had become important to get to grips with long-term structural employment, or involuntary employment, and think anew about the whole question of how to measure long-term structural employment that was affecting those least capable of securing other jobs.

Investment, at 14% of GDP, was too low and was not labour demanding, especially in unskilled and semi skilled labour terms. Even with primary commodity prices improving, South Africa was now seeing an upward tick in its economy. But commodities such as gold were not the hedge that they once were and platinum was now a more important export than gold was. These factors suggested structural problems at the heart of our comparative advantage and our employment locations. So it had to be asked where and what the new growth path was and DTI was examining this question quite hard.

Like it or not, GEAR had delivered on macro issues and there was now macro stability. Some people still saw GEAR as being a major problem, but the fact remained that there was now a secure macro environment which had led to good credit ratings. But the missed opportunities had major political ramifications, and the debate was now focused on employment creation and breaking through the low growth band.

DTI had identified certain new areas of growth and employment creation in the tertiary-cum-services sector, which was a very divergent sector covering areas such as education, health and communications. Most of them were not conventionally within the province of a Department of Trade and Industry, but were areas in which very significant developments were taking place, particularly around privatisation and public-private partnerships etc. These had enormous employment and investment potential.

For example, there were currently fewer people coming out of schools into universities and the universities actually had excess capacity. At the same time, very few foreign students were coming to South Africa but those who were coming in generated earnings of about R200 million. Countries such as Australia had an enormous industry in foreign students, which earned it about R9 billion a year. Our fees were cheap, we had excess capacity, and an English speaking country. There were some problems but we needed to explore the possibility of doing more to encourage foreign students.

One of the main deterrents for students had been that they had to pay R1 000 a year for a student visa instead of being able to get one for three to four years. The Department of Home Affairs could reconsider this approach to encourage more foreign students. What was needed was greater co-ordination by the different government departments to encourage various aspects of the new economy by paying attention to public-private partnerships, regulatory issues, skills development and human resources. The DTI believed that it had a role in leading this inter- governmental process.

Some people were critical of this new economy approach, saying that it did not fit into South Africa's traditional areas of concern, but Kaplan said he believed that there were important linkages from the new economy, from productive services, financial services and others back into the traditional sectors.

For example, large mining houses which were now very active internationally said that their ability to compete internationally rested with their ability to mass mine at a deep level. But they were also becoming more adept at big project finance management, construction management, exploration, and a whole gamut of activities that were quite new "economy-ish", that required considerable amounts of skill. This was an industry that employed a lot of unskilled workers but it was increasingly relying on skills and companies were having to have access to those skills to ensure their place in the market, their comparative advantage, their efficiency.

Another example was the clothing sector. The new African Growth Opportunities Act gave the sector access to the US market, not just in clothing and textiles but in a number of other sectors as well. As a result, manufacturers were talking about the possibility of creating 400 000 new unskilled jobs in the sector.That might be fanciful thinking, but there was clearly a major opportunity there because not only were local firms particularly well positioned to make the clothing but also to provide the logistical framework and packaging wanted by the big stores.

Of course, there would be complications and problems in getting our act together and using capacities more effectively, but the potential was there. He cited the example Dimension Data, a local networking company which had been listed in London and was now among the top 80 companies there. There were other such companies in health provision, in insurance and a whole variety of other areas. He suggested that TIPS' next forum should focus on the whole question of new economy and the human resource and skills development this would need.

Lisa Seftel, the Chief Director of Labour Relations, said that the Department of Labour had developed a labour model and approach and had been putting in place a very aggressive strategy of legislative and institutional reform to implement a number of reforms in the labour market to improve labour market efficiency, and increase skills development.

The new legislation covered skills development, collective bargaining in dispute resolution, affirmative action, employment equity and, most recently, the restructuring of the unemployment insurance system. But it could be asked if South Africa had got its labour market model right in relation to employment creation. Perhaps what was needed was a national employment strategy on which there was broad consensus. This would involve not just research but also social dialogue, or a social compact. The department was working hard to achieve this, even though it had proved to be rather intangible so far. Hopefully there would be more progress in the forthcoming year than there had been in previous years. The debate had centred on the effect of labour market policies on issues such as the ability to hire and fire, the level of wages, wage inequalities, on employment, on the capacity to create or to impede employment creation. But employment creation was not about labour market policy. It was much more about other very significant pillars such as macro economic policy, industrial policy and development policy. If one looked at the labour market per se, important issues to consider were the relationship between skills rather than the issue of wages or so called labour rigidity. If one looked at things like what was impeding employment creation, one should look at the relative importance of skills and wages, immigration policy, and the need to have improved logistics to respond to, to be able to fit into the new economy.

She had identified four areas of further potential research. On the relationship between the labour market and employment, she had found it quite disturbing that many of the papers and some of the inputs had made ideological assumptions and assumed them to be reality. There had been very little research into the real relationship between bargaining councils and so called wage rigidity. There had been a lot of talk about bargaining councils creating wage rigidity while the fact of the matter was that there were only two bargaining councils that had one national wage across the country. One covered the public service.

There had also been a tendency to, for example, say that because the Basic Conditions of Employment Act allowed for downward variation, this meant that there was a downwards trend in conditions of employment. This needed to be explored.

Another area needing research was the relationship between the impact of labour regulation on small business. There had only been one study, which had been commissioned by the department and might be accused of being biased. It had looked at the relationship between the impact of one law on small business and it had not concluded that labour laws were particularly onerous on small business, but more research was needed. There were some interesting studies that were beginning to emerge.

But then just more generally in the labour market, the reality was that many laws were still being implemented and often the department needed research to make sure that it was able to implement the laws in the best possible way. For example, one of the big plans was the whole question of sector and work place skills plans and whether they met the requirements of industrial policy and of enterprises.

In relationship to minimum wage setting, the department was involved with two very big investigations into what the appropriate minimum wages were for domestic workers and for agriculture. More research was needed to help the department develop these appropriate minimum wages. It was a political priority that minimum wages were set for these sectors but it was important to look at the dis-employment and other effects on the rural development strategy.

It would also be important to examine the impact of employment equity law on gender issues, on the employment of women, on the employment of Black people at all levels of the work force. Skills development policies were very new but it would be very important that, as they were implemented, there was monitoring and research that looked at the impact.

Seftel agreed with Kaplan that there were new opportunities in sectors such as clothing and textiles. What had to be examined now was the appropriate labour market regulatory institutional environment to support that. She said the department had been plagued by data problems, especially on how to measure unemployment.

It was now beginning to develop its own data bases through, for example, an employment equity registry which would be able to detail the employment, race and gender composition of the workforce of all employers who employed over 150 people. It was also trying to develop a database around compliance.

Seftel agreed that there needed to be better dialogue between researchers and policy makers. She had been concerned to note, however, that research commissioned by a particular person or organisation usually had a fairly predictable outcome because some debates were so very polarised in South Africa. She believed that researchers should strive to keep their intellectual autonomy in respect of their work.