

**HELEN SUZMAN FOUNDATION COMMENT:
ECONOMIC TRANSFORMATION, INCLUSIVE GROWTH AND COMPETITIVENESS**

1. This document is a response to a call by the Minister of Finance for public comment on a paper prepared by the National Treasury entitled *Economic transformation, inclusive growth, and competitiveness: towards an economic strategy for South Africa*, issued on 27 August 2019.
2. The Helen Suzman Foundation is a non-governmental organization whose central objective is to promote constitutional democracy. It seeks to do this in two ways. The first is public interest litigation and the second is evidence-based research into social and economic policy making South Africa a better place to live.
3. Our general assessment of the National Treasury's document is that it is very much better than anything the government has published for a very long time on the topics it covers. This is for the following reasons:
 - It is lucidly and coherently argued.
 - It is rich in suggestions for policy development and implementation, drawing on a wide literature and much practical experience in this country and elsewhere.
 - It is, in effect, an update of considerable parts of the National Development Plan. Such updating is overdue, especially as the economy has not developed so far as envisaged in the NDP and, in any case, circumstances have changed. In fact, it surpasses the NDP in detail in a number of places.
 - Work of the kind it proposes is necessary for economic growth. Poor macroeconomic policy can certainly derail growth. This is why fiscal stabilization is the top short-term priority at present, and why it needs urgent attention. Substantial progress has to be reflected in the October Medium Term Budget Policy Statement, otherwise serious trouble lies ahead. On the other hand, good macroeconomic policy provides a favourable environment for growth, but it needs complementary microeconomic policy to produce it. As Paul Krugman has put it: depressions, runaway inflation, or civil war can make a country poor, but only productivity can make it rich.
 - Above all, it provides a signal to domestic and international decision makers that the government is getting serious about economic growth, and understands that further social progress is impossible without it. However, this signal will not last long, or have any significant effect, if the document is not carried forward, first to gain Cabinet approval for its recognition as equal in status to the NDP, and then as a basis for discussion between private and public actors in the fields it covers.
4. We do not take our observations in the preceding paragraph to imply that we believe the analysis in the document is accurate in every detail or that the proposals will prove of equal value. What they do commit us is to the view that the publication of the document is the start of a potentially productive dialogue and an appropriate set of responses by the relevant actors.

5. By the same token, we shall not produce a line-by-line critique of the document. It would be impossible to do so within the deadline for comments, and it would in any case produce a lengthy response of great tedium and little value. Moreover, we are simply not expert in all the issues, though we would point out that we have published on some of them, for instance, six briefs on urban transport between March and May 2018 and a document *Human Settlements and Urban Land Reform*. We publish our research as soon as possible after its production and it can be used freely by anyone.
6. Rather, there should be a process of discovery of the most useful of the proposals in the document through discussion and dialogue. The best proposals will be those which both pass benefit-cost tests in the public sector (a necessary condition for government to add to growth rather than subtract from it) and supply sufficient incentives for private sector participation. The trick lies in solving the collective action problems which arise *en route*.
7. We think that there is a widespread will to do so at present. Everyone is thoroughly sick of the economic stagnation of the last five years. No-one wants low rates of investment: it means lower employment and lower profits.
8. But there will be those who will, reflexively and lazily, dismiss the document as ‘neoliberal’, the ‘2019 class project’ and a return to GEAR. This response is seriously misguided: at the core of GEAR were macroeconomic adjustments needed in order not to derail growth, with very little about complementary microeconomic changes needed to promote it. By contrast, this document is all about microeconomic proposals. These proposals, if implemented, will have widely different impacts over time, over space and over a large number of individuals and enterprises. There is something for everyone in them, and the constructive response from different constituencies will be to find those that serve their interests and promote them.
9. Furthermore, a prominent political scientist has observed:

My own conclusion from a lot of polling evidence is that the overwhelming issue is jobs and that black (and other) voters will follow anyone who can plausibly promise that what he does will lead to more growth and jobs. EFF voters were only too happy to vote for privatization, to discard BEE, EWC and affirmative action if only the result was more jobs¹.

This is enough to shake many politicians with rage, but if it is true – as we believe it is – it makes serious consideration of the proposals in the document easier, provided that an initial high-stakes political poker game is won within the ruling alliance. The release of the document has, in fact, set the game afoot, whether intentionally or not.

The outcome will depend on the ability of those who broadly favour the National Treasury’s document to strengthen its hand by tapping into the latent support of the political base and to estimate the strength of their opponents’ hands accurately. Trade unions are suffering the adverse consequences of economic stagnation in the form of stagnant union membership, and the SACP, more than 60% of whose members were unemployed in 2014², has a base with much to gain than to lose from the National Treasury’s proposals. The

¹ R W Johnson, The IMF can do what the ANC can’t, *PoliticsWeb*, 11 August 2019

² On this, see Charles Simkins, Left and right in South African politics to-day I, *HSF Brief*, 12 June 2019

political game will take nerves of steel. If the supporters of the document lose, the document will disappear from sight, there will be nothing more to say about it, the credibility of 'being open for business' will be smashed, and the country will drift more rapidly towards crisis. Some have suggested that a policy of muddling through will suffice³, but we disagree. It hasn't. It won't.

10. Assuming that the poker game will be won, at least to the extent that individual proposals are considered on their merits, the following desirable outcomes will be facilitated:
 - Government and the ruling alliance will have clearer guidance about how it should not shoot itself in the foot.
 - It will be better understood that winning the confidence of foreign investors is integrally tied up with improving business confidence and engagement more generally: small business and large, old business and new, brownfield and greenfield projects alike.
 - It would help the transition from a nation of claimants to a nation of producers.
11. We sense great dynamism at the social level at present. Our heroes are not BEE beneficiaries (still too concentrated among elites), and certainly not those who seek to advance through corruption, but the ordinary sisters and brothers who are doing it for themselves, carving out better lives by the acquisition of skills and experience. They have been badly let down in recent years. The first duty of government is not to rob them blind, the second is to give them value for their tax contributions, and the third is to play its part to match their efforts.

³ For example, Jonny Steinberg, Scandals might just be what the country needs: with its many insurmountable problems, SA could muddle through by getting distracted, *Business Day*, 23 August 2019