

NDP: A mixed bag

The National Development Plan (NDP) is full of many ideas, but will these ideas be implemented and how, writes **Ilan Strauss**.

Any document written by 26 individuals, each with a different approach to the economic and social issues of a country will have a fair amount of contradictions in it. The National Development Plan (NDP) is no different. There is a good bit of truth in the picture on page 4 of the NDP which shows a sign post labelled 'South Africa', bearing several signs, each pointing in a different direction. The signs are labelled 'NPC', 'Vision', 'Diagnostic Report', 'The Way', '2030', and 'Plan'. It is important to mobilise support for the more sensible recommendations in the NDP, of which there are many.

The NDP's two primary aims are by 2030 to reduce income inequality from a Gini coefficient of 0.69 to 0.6; and to 'eradicate income poverty' (defined as all households with a monthly income of below R419 per person, in 2009 prices). This means a reduction in income poverty from its current level of 39% to zero.

These goals will be achieved by reducing unemployment (using the strict definition) to 6% by 2030 and improving the quality of educational outcomes. This in turn will be realised by having average annual gross domestic product (GDP) growth of 5.4%, raising public infrastructure investment to 10% of GDP and boosting private investment in labour-intensive production.

There will also be state support for specific sectors, undoing spatial inequalities, reforming the labour market, and improving access to quality public goods and services such as health care, transport, education, electricity, water and housing. Significantly, the NDP supports the phasing in of a National Health Insurance (NHI).

Unfortunately the NDP itself has doubts over whether the goals of eradicating income poverty and reducing inequality are well-matched. The 'competing interests of reducing mass unemployment, raising living standards and closing the earnings gap' implies a trade-off between employment growth and reducing inequality.

These 'doubts' are part of the 'labour market' narrative in the NDP, which reduces the challenges facing the South African economy to labour costs and 'rigidities'. In this narrative 'uncompetitive labour markets keep new entrants out and skew the economy towards high skills and high productivity sectors'. Wage moderation (wages rising *in line* with productivity) is the central ingredient to ensuring 'long-term competitiveness'.

The NDP squares the circle of its many contradictions when it calls for a 'social compact'. The social compact requires labour to agree to wage increases *below* productivity growth. In return 'business agrees that the resulting

increase in profits would not be taken out of the country or consumed in the form of higher executive remuneration or luxuries, but rather reinvested in ways that generate employment as well as growth'. In doing so the NDP abandons its previous call for 'wage moderation' and invites inequality and poverty to grow.

The consequences of this 'compact' for the economy, if implemented, would be disastrous. As Leibbrandt, Finn & Woolard show, the main driver of inequality post-1994 has been growing inequality in wage income. This is due to more people not finding work and wages becoming more unequally distributed among those who do work.

This builds upon the important findings by Leibbrandt, Woolard, McEwen, and Koep which show that since at least 1997, the only income deciles [tenths of the population divided according to income] who experienced any growth in real wages were the wealthiest, all others experienced a decline in real wages.

The 'labour market' narrative contrasts sharply with the emphasis the NDP places on the importance of the past in shaping the present state of the economy. In this narrative the economy's problems are deep seated in nature and are not driven by present labour market conditions.

INHERITED ECONOMIC CRISIS

'The roots of SA's high rates of unemployment, poverty and inequality can be traced to more than a century of colonial exploitation and apartheid... Economic and employment stagnation [between 1979 and 1995] resulted from isolationist policies, industrial concentration and lack of investment in human development. These were accompanied by active attempts to exclude the population, constrain skills supply, and diminish the circulation of goods and services. Capital-intensive investments were in line with the policy of economic self-sufficiency.'

Reducing unemployment is reliant on 'better educational outcomes, a healthier population, better located and maintained infrastructure, a sound social safety net, a capable state and much lower levels of corruption.' Furthermore, because of the highly concentrated nature of South Africa's economy, 'liberalising labour markets without dealing with other features [of the economy] could lead to higher profits without increases in investment, innovation or employment.'

Because wage demands are largely a function of the high cost of living, the NDP calls for a number of measures to contain living costs: improving competition policy and enforcement, subsidising transport, improving the provision of high quality public services, and reducing food inflation and consumer energy costs. On this basis a 'social wage', which subsidises certain living expenses, is promoted. This narrative accords with the facts of South Africa's historical and on-going development.

On the eve of democracy, South Africa already had probably the highest unemployment rate out of any middle-income country. As South Africa's economy became increasingly urbanised and industrialised, the apartheid government realised that it would need to unwind many of its racist

policies which were harming the economy.

Unfortunately by then, what Harry Oppenheimer called the 'low wage, low productivity economic system', had become firmly entrenched. South African Reserve Bank (SARB) data, adjusted and linked by SARB for changes in the various surveys, clearly shows that between 1970 and 1993 real wages rose by only 1.4%, while labour productivity growth declined.

The problem of the South African economy has always been its inability to raise the productivity of labour and machines. Low wages have never helped in this respect. After 1994, the SARB series shows that real wage increases have been in-line with productivity growth, and even lagged behind it since 2000.

This data is confirmed by the declining share of wages in profits since at least 2000, noted by Brian Kantor, chief economist at Investec, in his article *Why is capital so much more productive than labour in South Africa?* However the declining share of labour in the social surplus probably goes back further, according to Jeremy Wakeford's *The productivity-wage relationship*.

South Africa's economy has always been affected by productivity issues, not excessive wage increases among low-skilled workers. The high-cost structure of the economy is certainly relevant but is itself a function of its highly unequal and concentrated structure.

CONCLUSION

The central challenge causing the coexistence of conflicting recommendations in the NDP is globalisation. 'Indeed in the era of globalisation, is it possible for any government to be able to discipline capital? Capital is mobile and is more easily able to avoid reinvesting locally than labour is able to move.' In response the NDP calls for a barrage of proposals, some which undermine each other.

Their primary response is the

'social compact' discussed above. Ironically, the NDP itself notes that globalisation 'gives it [capital] more power in the political economy realm and distorts any attempt to enforce a social compact'. The 'distorted' social compact of the NDP will only further disadvantage South Africa's economy relative to its peers. According to The World Economic Forum and Deloitte's 2012 report on *The Future of Manufacturing*, export performance is increasingly reliant on quality factors such as high-tech infrastructure, human capital, advanced management techniques, and the ability to innovate. These factors are already crucial amidst growing international competition.

Calls to reduce the real wage undermine the development of 'quality' factors in an economy. One such proposal in the NDP is the youth wage subsidy. This is an attempt to return South Africa to the 'low wage, low productivity' regime of the past. As it did then, it will only oversee a lowering of skills, efficiency and technique.

Recognising the importance of quality competition, the NDP also calls for 'a more competitive cost structure and raising productivity through investment in infrastructure, education, transport, and housing, raising exports, regional development, and strengthening the capabilities of government'. A competitive up-skilling, efficiency and technique can end up benefitting everyone and must be supported.

The NDP makes many recommendations. Some of them are helpful. The question is which ones will be adopted? This is where 'ordinary' South Africans need to add their voice. ■

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