There's no ten out of ten **after ten!**

The presidency released a review of the first ten years of democracy. Named 'Towards a Ten-Year Review' it sought to answer two questions: Has government achieved its policy objectives? Were they appropriate objectives? Cosatu *examines some of the key issues raised in the report.*

The ten year review was the result of consultations and inputs from various government departments and research by reputable institutions, economists and academics outside of government. Some of the research posed serious questions about government policy and the implications for government if issues such as unemployment and poverty are not addressed. For a government document, it is surprisingly frank in some areas and defensive in others.

The report's main finding is that, since 1994, although government has improved governance and services, poverty has worsened due to rising unemployment. The review concludes:

The advances made in the First Decade by far supersede the weaknesses. Yet, if all indicators were to continue along the same trajectory, especially in… (labour and poverty)… we could soon reach a point where the negatives start to overwhelm the positives. This could precipitate a vicious cycle of decline in all spheres. Required are both focus and decisiveness on the part of government, the will to weigh trade-offs and make choices, as well as to proceed along a new trail.

Key areas covered in the review

The review is organised around the governance, social, economic, justice/crime prevention/security and international relations clusters in Cabinet. The *Labour Bulletin* only focuses on the developments in the social and economic cluster:

Social

The social sector focuses on alleviating poverty by addressing income, human capital and asset poverty. It concludes that government interventions have made a considerable contribution to improving equality, but poverty has worsened nonetheless, with particular problems in health.

The data show significantly more people earned less than the poverty datum line in 1999 than in 1995. In part, this reflects the tendency to split the population into more households, each with lower income. Government provides social grants and public works for the very poor. Two thirds of the income of the poorest group is derived from grants, pointing to good targeting. Complete take up amongst old people and children would reduce poverty from 42% to 24%. Public works spending is up tenfold since 1998, but the effects are not easy to determine.

In education, enrolment is now at 95.5% in primary school and 85% in secondary (a 15% increase over 1992). Class size fell from 43:1 in 1996 to 38:1 in 2001. Adult literacy has risen and is at 96% for those aged 15 to 24. The matric pass rate has improved, but the actual number passing has declined due to reduced repetition and progression. Around 71% of those over 20 years old have not completed secondary school.

Government spending on health per person has remained virtually unchanged. Stunting amongst children due to malnutrition apparently worsened in 1999 compared to 1994 (although this may reflect failure to include rural people adequately in 1994). Increased access to antenatal care has not improved maternal or child survival. The HIV infection rate has apparently stabilised, with around 4,7 million infected and 400 000 with AIDS. Treatment of TB is also more widespread.

The proportion of households with clean water rose from 60% in 1996 to 85% in 2001, benefiting 9 million people (half urban, half rural). Sanitation rose from 49% of households to 63%. Electrification for lighting expanded from 32% of households in 1996 to 70% in 2001, but to only 49% of households for heating.

Housing and land reform programmes ensured a transfer of assets to the poor – a total of R50bn since 1994. Government approved almost 2 million housing subsidies between 1994 and 2003, and transferred 480 000 township houses to private owners. Subsidies plus transfers equalled assets worth R48bn. Land has been transferred to around 140 000 households, and R,2bn has been paid to victims of forced removals, mostly in urban areas.

Economy

The evaluation concludes that government has succeeded in establishing macro-economic stability, improving the trade regime and ensuring use of SA's natural resources and physical and financial infrastructure. Still, investment remains low because of low skills, the volatile exchange and interest rates, high costs of transport and communications and poor perceptions of Africa.

Opportunities exist 'to better use the infrastructure to provide low-cost services, to continue to add more value to the processing and manufacturing sectors and to reduce SA's risk rating through better marketing.' But progress is slow in cutting input costs and improving skills, and competition from Asia will add to the challenges.

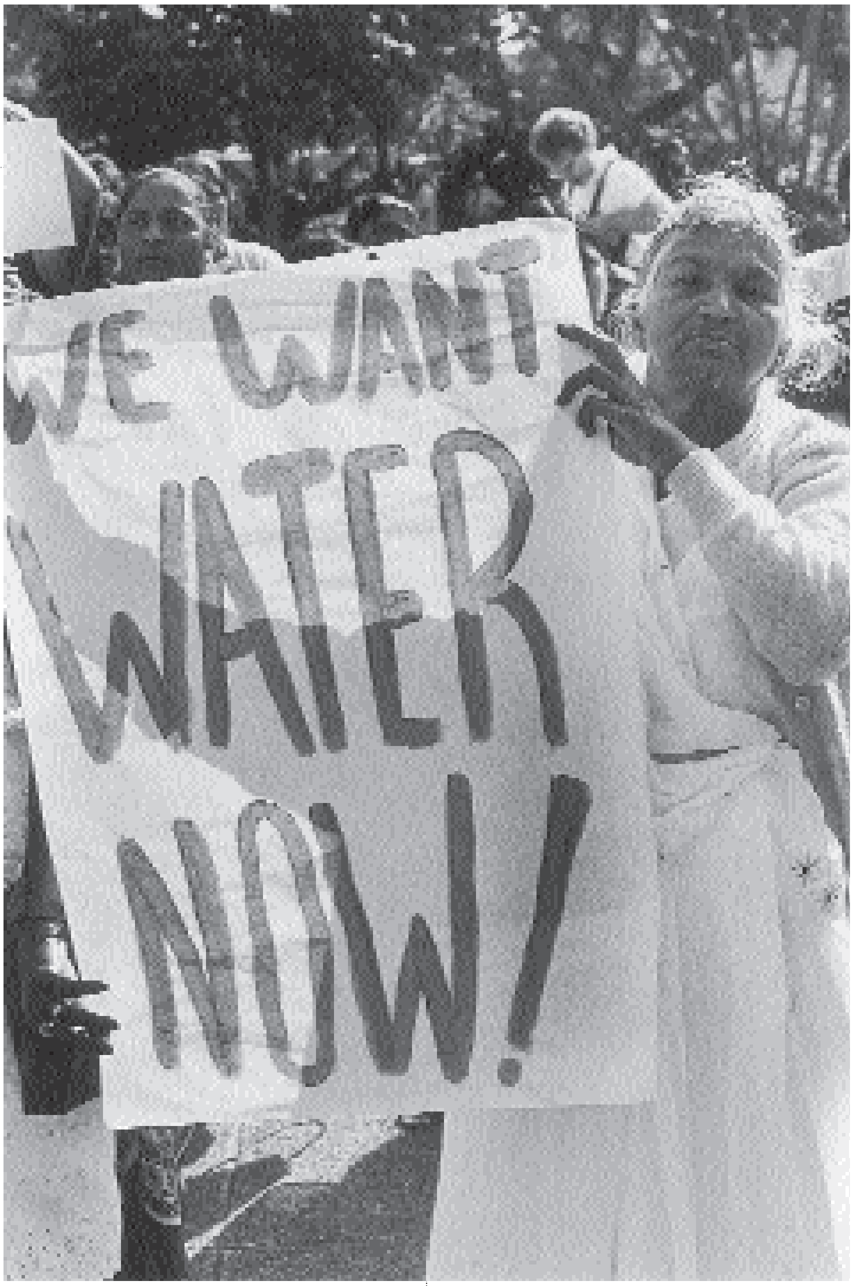
Government has met aims for macro-economic stability, as reflected in a cut in government debt relative to GDP and the improvement in foreign reserves from enough for a month of imports to over two months. Investment is very low, at 16%-17%, with public investment particularly poor in the late 1990s. This reflected both fiscal constraints and the restructuring of state-owned enterprise. Since 1999, however, government investment has grown, rising from 5% to 9% of the budget.

Low private investment is apparently due to mistrust of government, combined with mediocre growth expectations, crime, 'elements of labour legislation', and high interest rates. Government kept interest rates high to show it was serious about macro-economic stability. Some of these conditions have eased, leading to higher private investment. FDI has been reasonably high, but largely for mergers or modest expansions rather than big new projects – but that has improved since early 2000. Growth at 2.8% a year has been mediocre although relatively steady. Employment rose by 1.6 million (including informal jobs), but unemployment doubled to over 4 million between 1995 and 2002. The rise in unemployment reflected more rural people, especially women, looking for jobs. Skills shortages remain at higher levels.

In terms of trade and industrial policy, government has focused on cutting tariffs through the WTO and bilateral arrangements. This has led to higher value added in SA exports. Since the late 1990s, government has expanded incentives to beyond manufacturing and targeted key industries, including auto, tourism and ICT for special support in terms of supply-side measures, human resource development and science and technology.

State enterprise restructuring aimed to improve services to the historically disadvantaged, enhance efficiency and reduce public debt. The report says it should also avoid losing jobs and support BEE. Certainly public debt has been reduced. In addition, 'a more entrepreneurial class of those interested in restructuring activities' has been created; regulation improved, and share ownership and competition widened. Greater competition and regulation should help cut costs more. As elsewhere in the economy, however, SOEs have shed jobs.

Government has spent a lot on skills development, but skills shortages remain despite high levels of unemployment for skilled people. Employers are not adequately using the opportunities offered by SETAs. Unemployment has risen amongst African secondary and even tertiary graduates (for university graduates, from 10% in 1995 to 26% in 2002). The review argues that this reflects inappropriate curricula and guidance for students.



Black empowerment has seen the share of black ownership on the stock market rise from virtually nothing in 1994 to almost 10% today; but management representivity has hardly increased: only about 16% of managers and very few executive directors are black.

Review findings

The review finds that government succeeded in improving basic services and democracy, but has not done well in ensuring economic participation and, until around 2000, addressing crime. It argues that this is because, while the state has direct control over government services and institutions, it can only indirectly influence the economy and criminality. In particular, the review blames rising unemployment, not on slow job creation, but rather on rising rural-urban migration, which leads more people to seek jobs. It says low investment results primarily from the lack of personal trust between the economic and political ruling classes, because of their very different backgrounds.

The key findings include:

In governance, government can define new rules and institutions, but cannot easily influence civil servants' behaviour toward the public. It faces competing claims for legitimacy from NGOs and CBOs, and must deal with broader social changes around identifying, culture and norms.

In social services, improvements

have been seen in social welfare, education and infrastructure, but health lags behind. Failure to pay for basic infrastructure suggests many citizens do not understand the need to pay, besides those who cannot afford services and those engaged in protests over poor services. Housing and land reform have helped address asset poverty.

In the economy, government has succeeded in areas it controls directly – fiscal and monetary, trade and industrial policy – but has done less well where it relies on other institutions and partners, specifically: Competition policy, restructuring and improving the performance of government and regulatory institutions, agrarian reform, restructuring of SOEs and BEE and investment and employment creation, which 'depend significantly on private sector and civil society attitudes and behaviour and are only indirectly influenced by the state. Still, 'the soundness of the macro-economic policy and industrial strategy is beginning to positively influence investor attitudes. Unfortunately, this change in attitude has yet to translate into significantly increased employment and consequent poverty reduction.' Experience suggests that establishing new institutions – such as the SETAs and the SME agencies – is costly and slow, and should be avoided where possible.

Understanding government performance

The report argues that the decline in economic indicators should have been expected 'given the dramatic increase in the economically active.' It argues, using Gini coefficients that measure inequality (the higher the Gini coefficient, the greater the inequality) that overall income distribution has improved (this contradicts Stats SA's own analysis), and in contrast to the situation before 1994, government spending has a further redistributive effect, reducing inequality by some 41% compared to the initial income distribution.

Next, the report looks at what it terms the broad social transition since 1994. It characterises this transition as a shift to smaller households, so that 30% more families now need services and housing; an increase in labour-market participation; a shift in employment from the public sector, construction and mining to services and retail; and high rural-urban migration.

The review says that the labour force grew 4% a year while the population grew around 2% a year (but does not give dates). In other words, the number of people seeking jobs has risen faster than the number of working-age adults. It argues that the relatively rapid increase reflects the migration to towns from the former homelands by women. As a result, while employment grew 12% overall, despite the shrinkage in key formal industries, the labour force grew 35%.

The shift in employment structure favoured highly skilled occupations in the formal sector, perpetuating the 'two economies' system.

The 2001 Census showed large migration from the former homelands to metro areas, in particular, so that some 20% of residents in some cities have moved there since 1994.

All of this analysis builds up to the conclusion that while the government has scored major successes, especially in areas it controls directly, substantial changes in policy are needed.

Challenges and opportunities

The review explores a number of strategies to deal with the problems identified.

A social accord or compact must mobilise all the social partners, led by the state, around a vision or framework for development to achieve the RDP and Millennium goals. Such a framework is needed to ensure government co-ordinates around priorities. At this point, the document slips in an added discrepancy, arguing that growth alone will not generate adequate employment, and that the key therefore is to raise investment by, 'continuing to improve the macro-economic environment, through a more stable currency and lower real interest rates, public-private partnerships in major projects, marketing and reversing negative investor perceptions, demonstrable success in dealing with poverty, reducing bureaucratic obligations on employers, easing access to and cost of capital specially for small and medium firms and targeted skills development and acquisition.' It argues that this represents implementation of the GDS agreements – entirely ignoring the central GDS commitment to restructuring the economy rather than simply making capital comfortable.

The second major challenge is to improve the functioning of the state. It argues that the influx of new public servants has brought in new skills and dedication, but has led to a loss of experience and institutional memory, sometimes leading to instability. Moreover, national and provincial governments must do more to intervene where there is evidence of poor performance, as part of the evolution of a single public service across all spheres of government.

The third challenge is to address the social transition described above. The National Spatial Development Perspective (NSDP) directs government to focus its efforts on areas that have large numbers of poor people as well as substantial economic potential, both rural and urban. It also requires provision of government services to ease the transition for migrants, to promote more compact urban areas, and to support rural areas affected by migration.

Way forward

The review concludes that: 'The

overriding challenge in this regard, if the country has to move to a higher trajectory of development, is employment creation and reduction in the number of citizens dependent on social welfare. At the same time, the reach and efficiency of social security need to be continually improved.'

The review outlines the key challenges for each Cabinet cluster including:

Social development: The main task is establishing a massive public works programme and improving access to social grants. Strategies are more efficient delivery systems for grants; expanding the public works programme to both labour-intensive construction and social services, addressing HIV/AIDS and other 'emerging diseases' by reducing infection and improving treatment' ensuring better and more relevant education at all levels, meeting increasing demand for housing and aligning urban housing with spatial plans, developing support programmes for farmers to use land better; and promoting 'national identity and pride, ensuring that households develop civic responsibility, including a culture of paying for services…'

Economic challenges: The main challenge is to implement key GDS recommendations to identify sectors for urgent investment and learnerships and employ at least 5% of investible funds in productive activity. Strategies include maintaining prudent macro-economic policies, sector strategies to raise competitiveness, continued partial privatisation ('managed liberalisation') of SOEs, support for small and micro enterprise, targeted skills development and implementation of the Research and Development Strategy.

International relations: The key challenge is to 'Unite the world around NEPAD's 'common human values' and get locomotive countries and projects going.'

This is an edited version of a Cosatu position submitted to the federation's central executive committee in November. LB

Critique

The main weakness is the absence of a consistent analysis of how the structure of the economy contributed to shortcomings. As a result, the proposals, far from proposing 'a new trail,' provide little in the way of a strong reform package. Acceptance of existing economic policies means the review does not propose a comprehensive, co-ordinated strategy that can ensure large-scale employment creation. It essentially calls only for expanded public works programmes and sector strategies aimed, not at employment creation, but at rising competitiveness. The review does, however, call for a 'social compact' both to ensure more consistent prioritisation of employment creation within government, and to mobilise business and civil society around that aim.

The weaknesses presumably reflect the schism in government between those who see rising unemployment and poverty as the key challenge and those who argue we must continue with economic policies geared narrowly to increasing the competitiveness of the formal sector and attracting foreign investment.

Explaining unemployment

Reading the review casually, one could easily miss the central admission that unemployment is now the key challenge facing the country. True, the overall impact analysis and final proposals point to the seriousness of the unemployment crisis. But the official overview of the employment situation takes up a single page and emphasises net job creation since 1994 and the skills shortage as much as the unemployment crisis

The review's basic argument is that employment as a whole rose by 1.6 million between 1995 and 2002, so the problem is not job losses. The number of people employed or seeking work – that is, the economically active population – rose faster than the labour force, which is all people aged over 15 years old. The economically active population reportedly expanded 4% a year between 1995 and 2002. The review says that this reflects a fundamental social transition, with a massive influx of rural people to the towns since 1994.

In short, the review concludes that the problem is not jobless growth, since there was some increase in employment, but rather the increased demand for jobs.

In the event, the vaunted job creation represents growth of just over 1% a year – well below the growth rate in the population, which the review gives as 2% a year. In other words, if the labour force grew as fast as the population, unemployment would still have risen.

The review also ignores the fact that incomes from work fell in the past nine years, in part because many of the new jobs are informal. Thus, the share of workers earning under R1 000 a month stabilised at around 40% between 1995 and 2002, while the purchasing power of R1 000 declined by almost half.

The consequences of this argument emerge in the review's economic proposals, which are contradictory and disorganised. By explaining rising unemployment narrowly in terms of the rapid increase in the number of work seekers, the review ends up without a consistent basis for defining appropriate strategies to grow the economy. It does not provide clear answers on how to restructure production and access to assets in order to create employment on a mass scale. Moreover, it makes no attempt to identify where existing policies have contributed to the current malaise.

Income distribution

The review makes a strong argument that, in economic terms, household equality has improved substantially, especially as a result of government programmes. The policy implications of this conclusion remain unclear, except to comfort people in government that they have succeeded in addressing poverty. Still, the statistical basis of this finding is extremely weak.

Firstly, the review argues that inequality in terms of earned incomes dropped sharply between 1997 and 2000. But Stats SA found that income distribution worsened slightly between 1995 and 2000. Intuitively, the drop in income inequality shown in the review is unbelievably large, with a decline in the Gini coefficient, which seeks to measure inequality, from 0.68 to 0.59. Even the latter figure represents an extraordinarily high level of inequality by world standards. The World Bank's World Development Indicators for 2003 report only around five countries with equal or high inequality, most of them in Southern Africa (Swaziland and Namibia) and Latin America.

In any case, it does not make sense to use 1997 to 2000 when data is available for 1995 to 2000 and indeed from 1995 to 2002 if the Labour Force Survey is used.

Secondly, the review calculates the impact on inequality if the benefits of government programmes for different income groups are taken into account. It argues that government programmes relieve 41% of the inequality in incomes, both through social grants and in kind (for instance, through housing and education). But this finding seems based entirely on a projection from 1997, with no attempt to research the impact of current government spending. The improving trend from 1997 to 2000, then, arises only because of the purported improvement in income equality in this period – which, as noted above, is highly dubious.

More fundamentally, we have to ask whether this is a useful way to understand the redistributive function of the state. After all, in almost every country, government plays a significant redistributive function. But that is not the same, in social or economic terms, as improving income distribution.

The income distribution figures in the review appear to underplay the extent of inequality and overplay improvements. Most studies show that income distribution has probably worsened, as unemployment has risen and wages have fallen.

Growth in the economically active population

As noted above, the data on the rapid growth in the economically active population is central to the review's understanding of unemployment. It argues that the increased number of work seekers mostly reflects the migration to towns from the former homelands, especially by women. As a result, while employment grew 12% overall, despite the shrinkage in key formal industries, the labour force grew 35%. The data underlying this argument is very dubious. In particular, the October Household Surveys (OHS) – which were replaced by the Labour Force Survey in 2000 – report unbelievable fluctuations in key data. For instance, they show a 15% decline in non-Africans of working age in 1995-1997, followed by a 9% increase through 2002.

If we think the OHS data is at all reliable, then it does show that workers and those seeking work (called the economically active population) rose as a share of the working age population from 46% in 1995 to 59% in 2000. These figures use the narrow definition of employment that excludes those too discouraged to seek work. If the economically active population had stayed at only 46% of the labour force, unemployment would have fallen below 10% by 2000.

But these trends reversed in 2000, as both job creation and the rapid increase in the economically active population reportedly ended. Despite some strong (and not very believable) fluctuations, the statistics show that the economy lost some 300 000 jobs all told between February 2000 and March 2003. In addition, the economically active population fell back from 59% in 2000 to 57% in 2003. But because of the decline in employment, unemployment continued to rise.

Finally, the data simply does not support the argument that more people sought work as they left the rural areas. In sum, while the review repeatedly points to the need for vigorous government intervention to ensure job creation and equity, its proposals do not measure up to the task. The economic proposals seriously misinterpret the GDS approach to sectoral strategies, in ways that could undermine the proposed redirection of government policy. LB