

Challenges on the economic front

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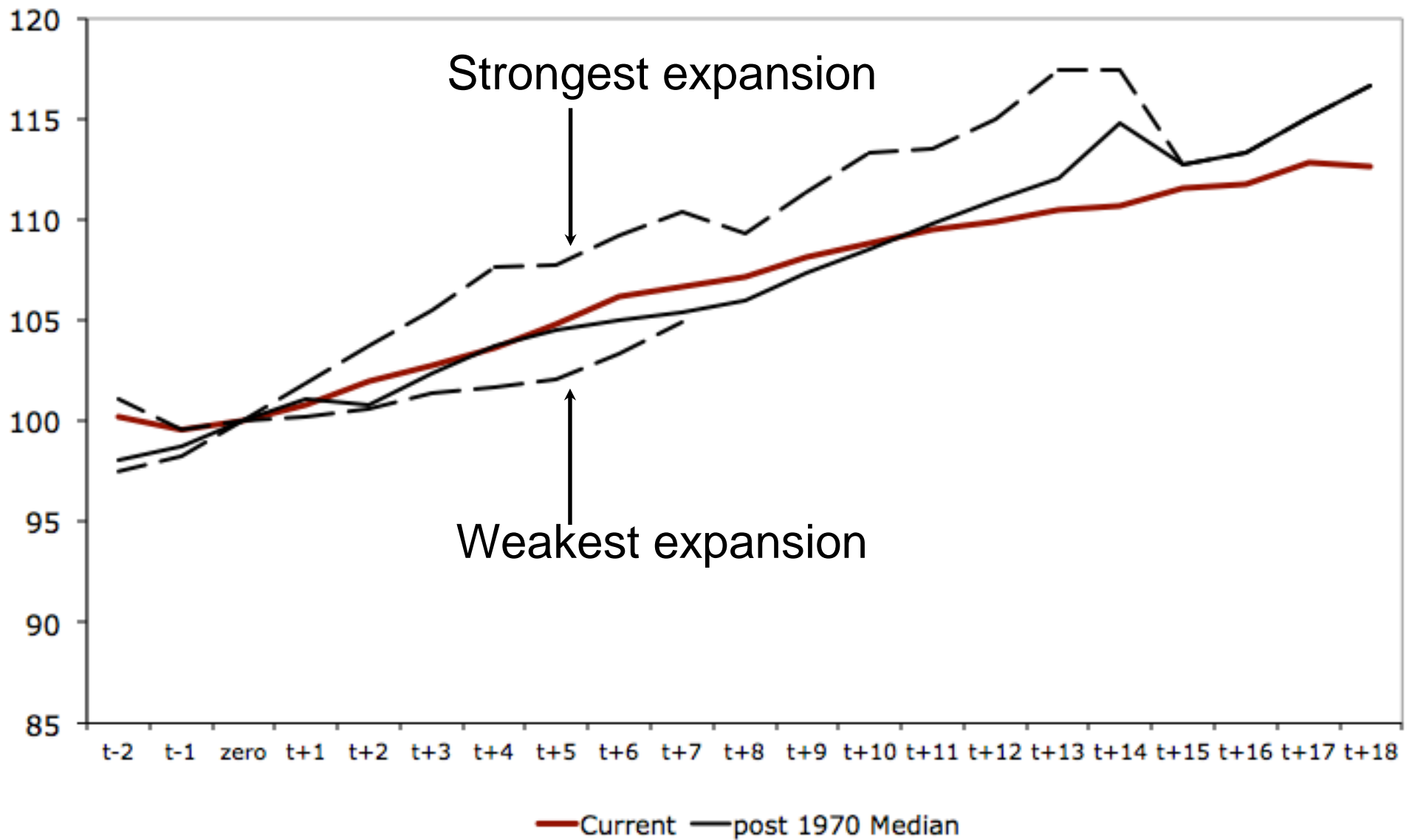
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Plan

- Brief empirical survey of key macro variables
- How can policy help?

Brief empirical survey of key macro variables



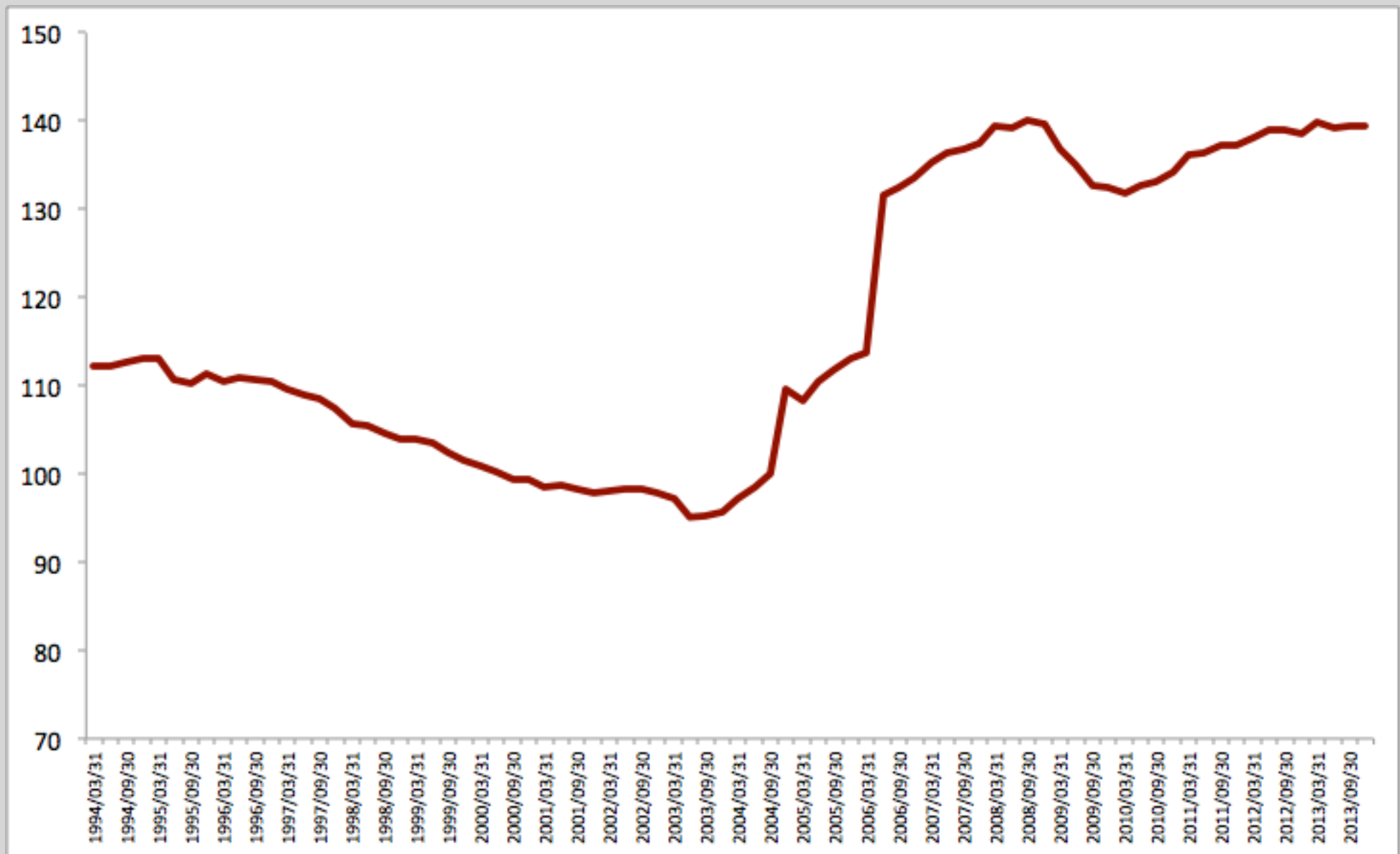
19 Quarters into a weak upswing

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Real GDP based to 100 at the trough

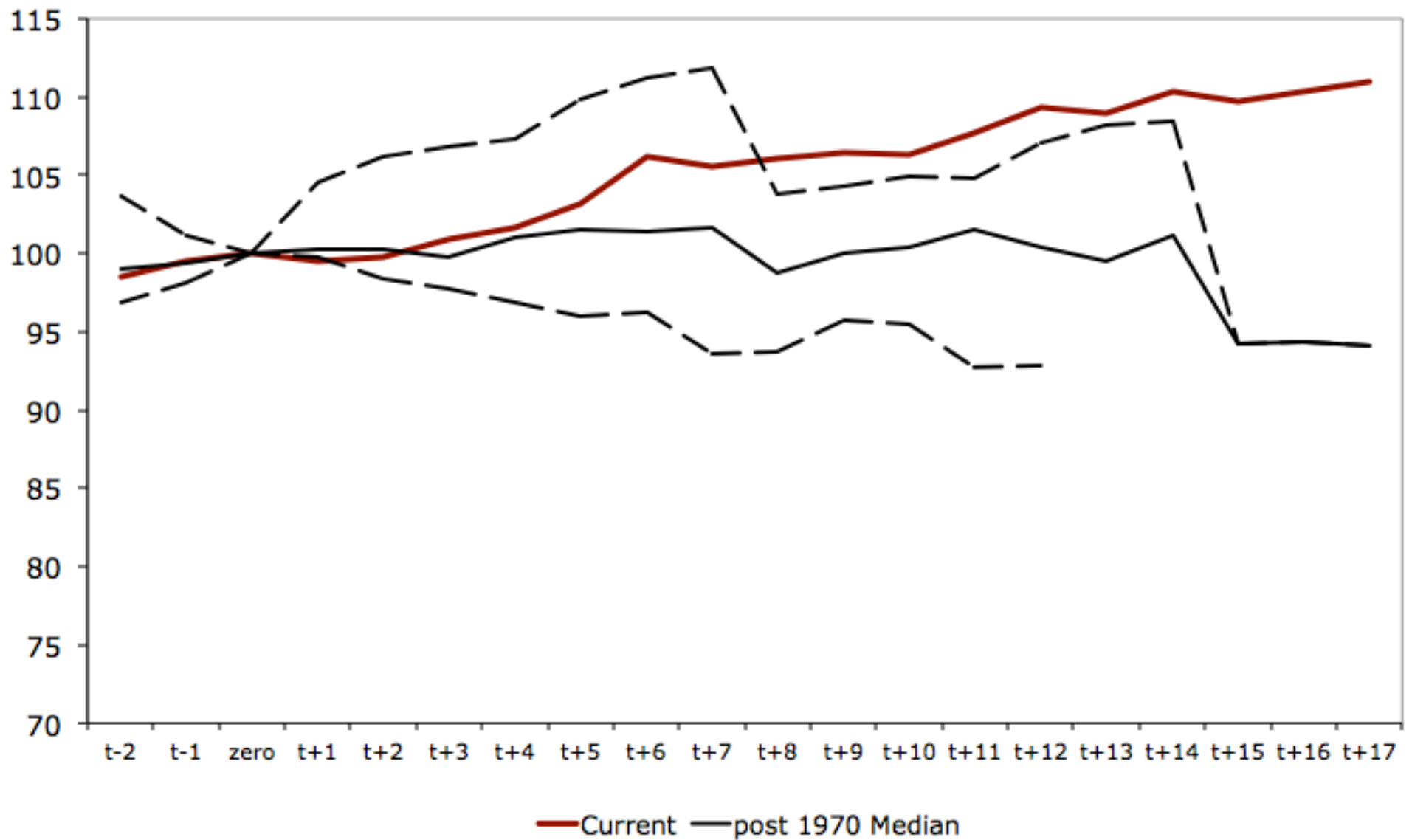


Total employment has
not recovered



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SARB data: total employment
index

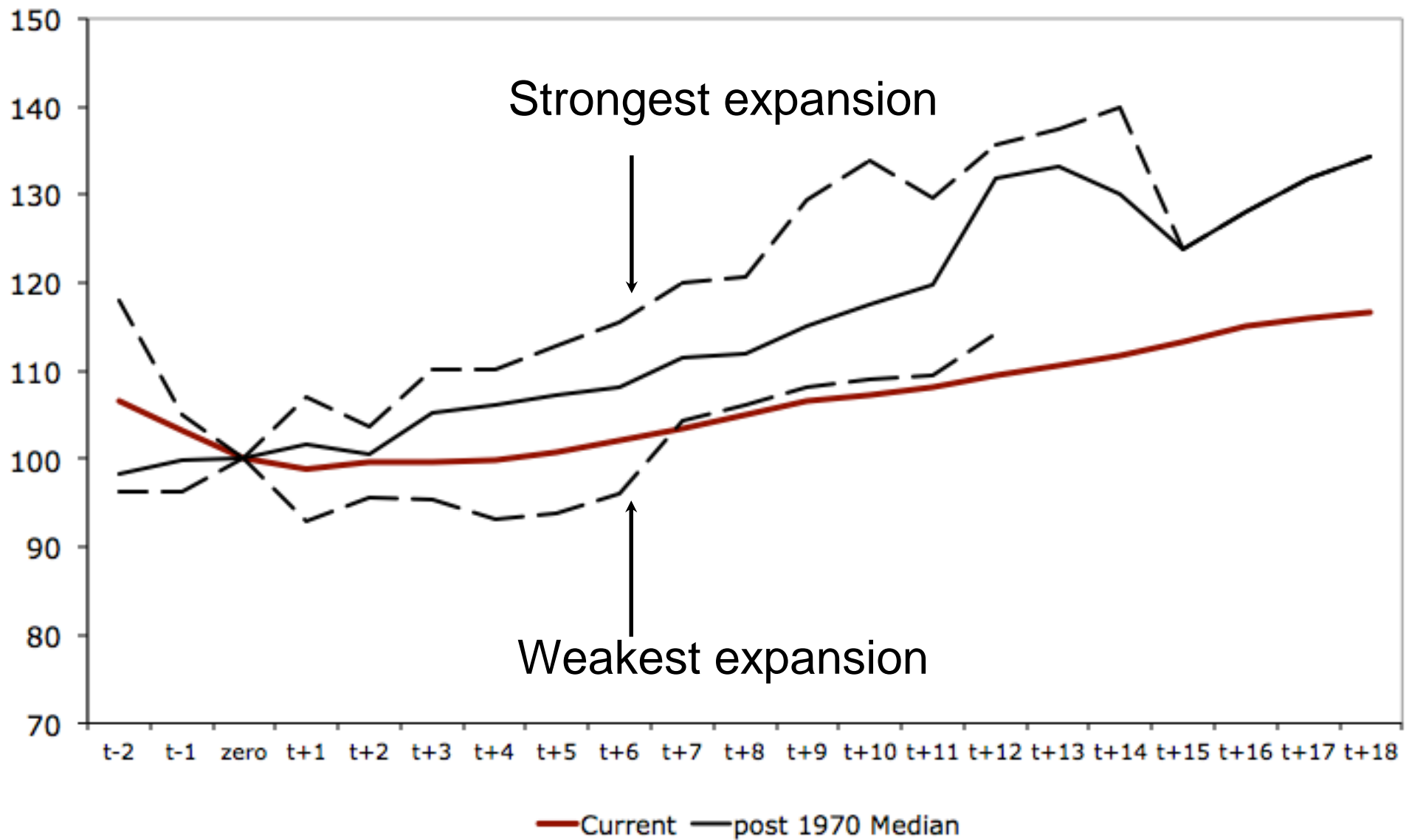


Except public sector
employment

Total public sector employment
based to 100 at the trough



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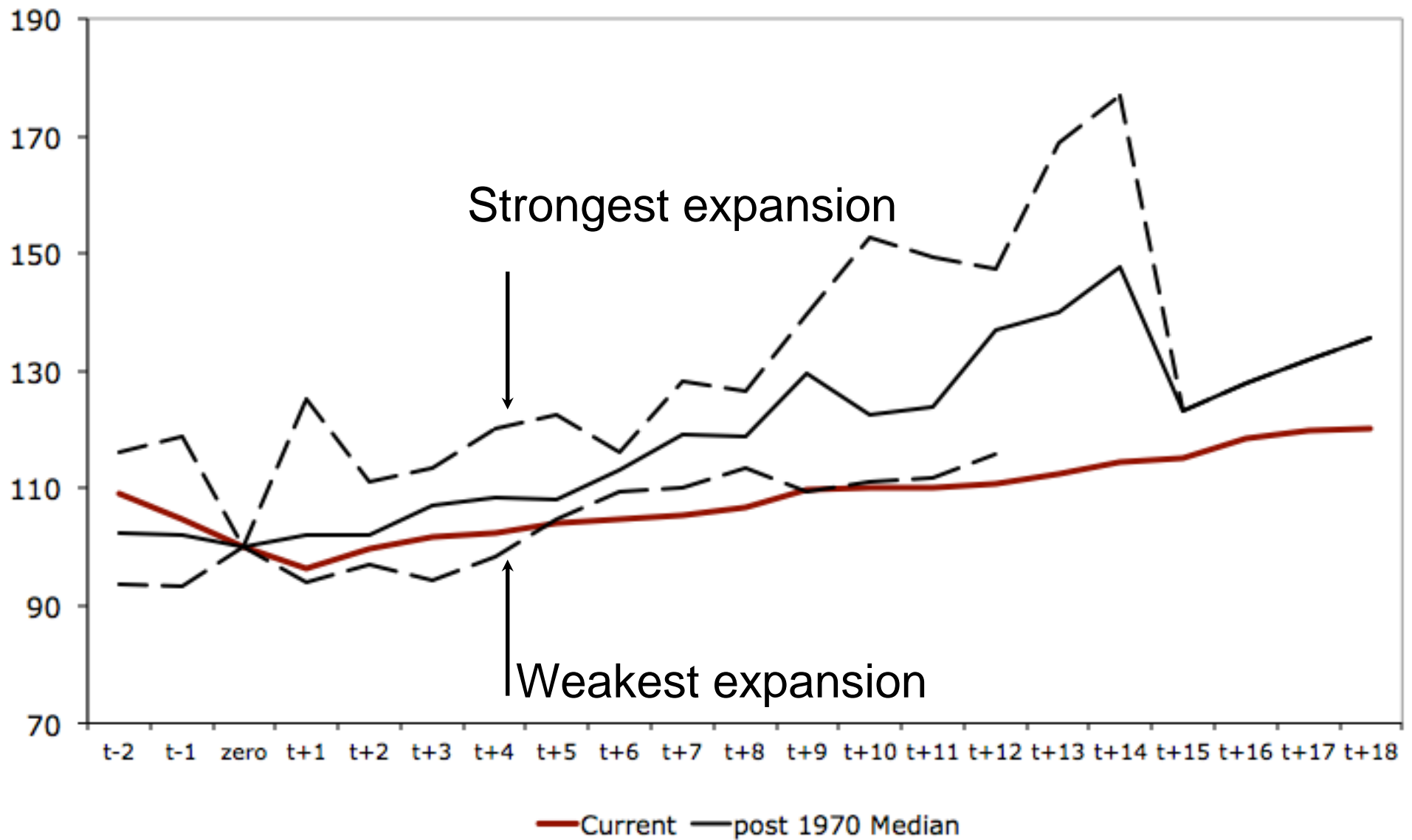


With investment one
major constraint

Real Investment based to 100 at
the trough



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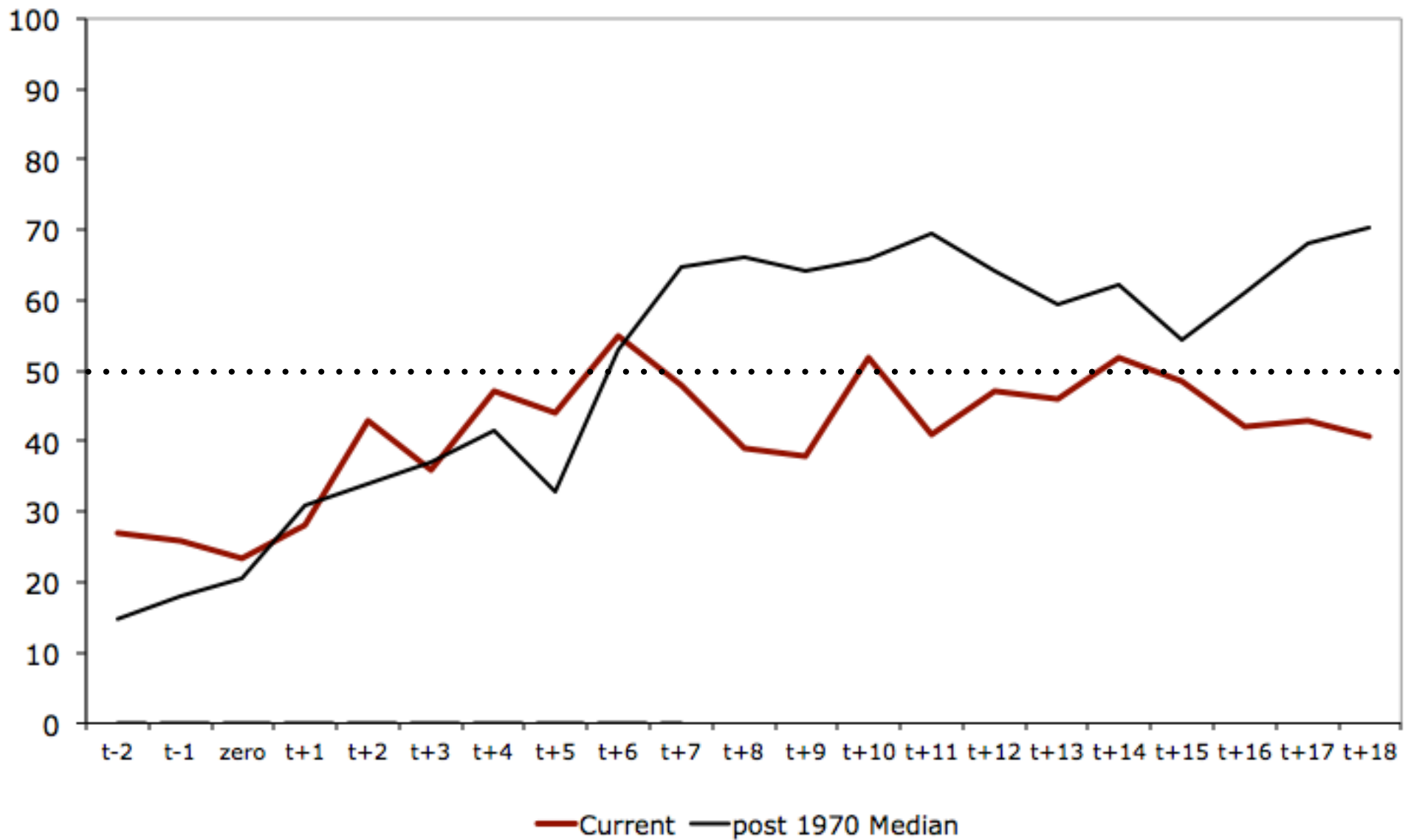


Especially by the private sector

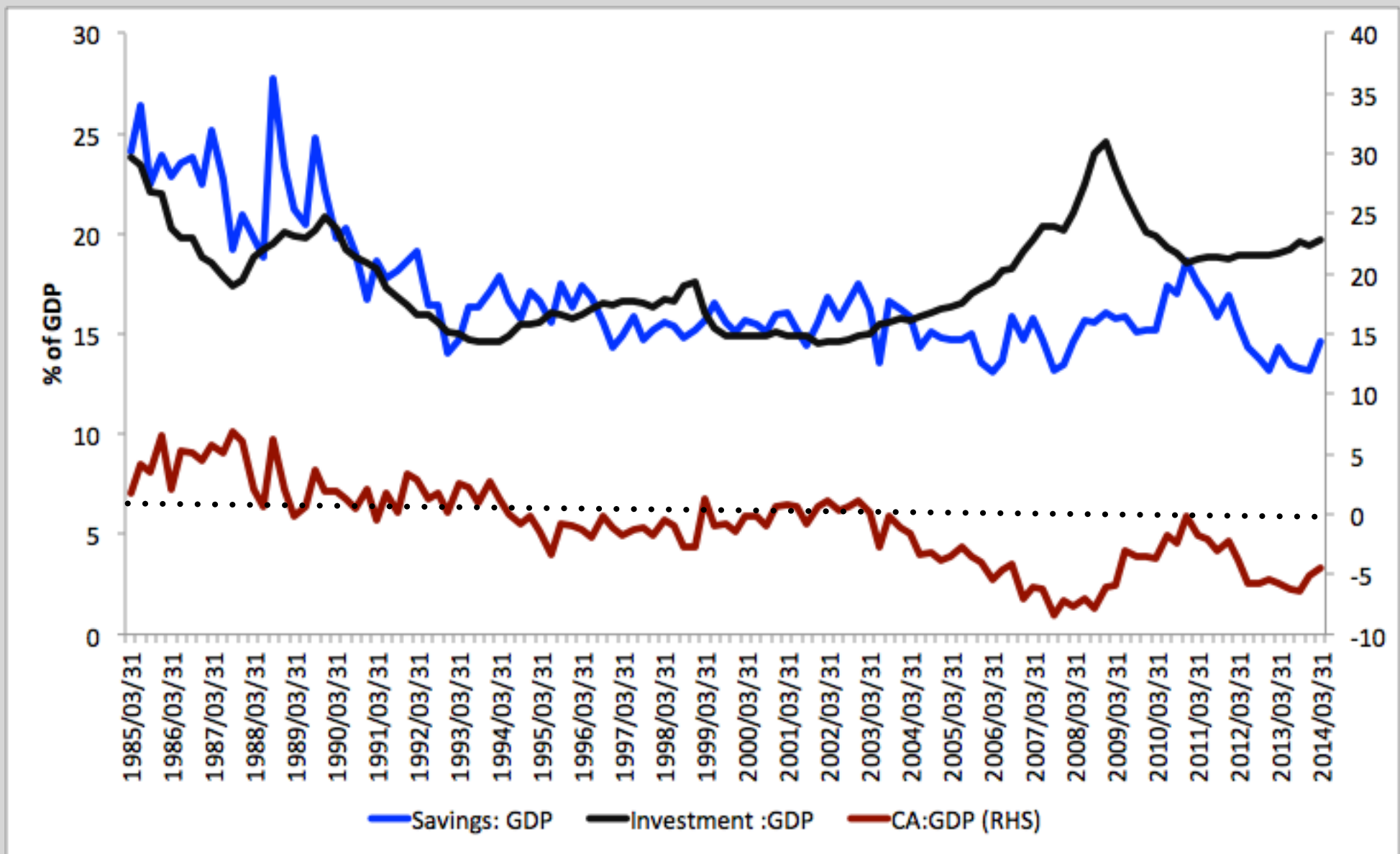


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Real Investment by private business enterprises based to 100 at the trough



Where business confidence
has not recovered



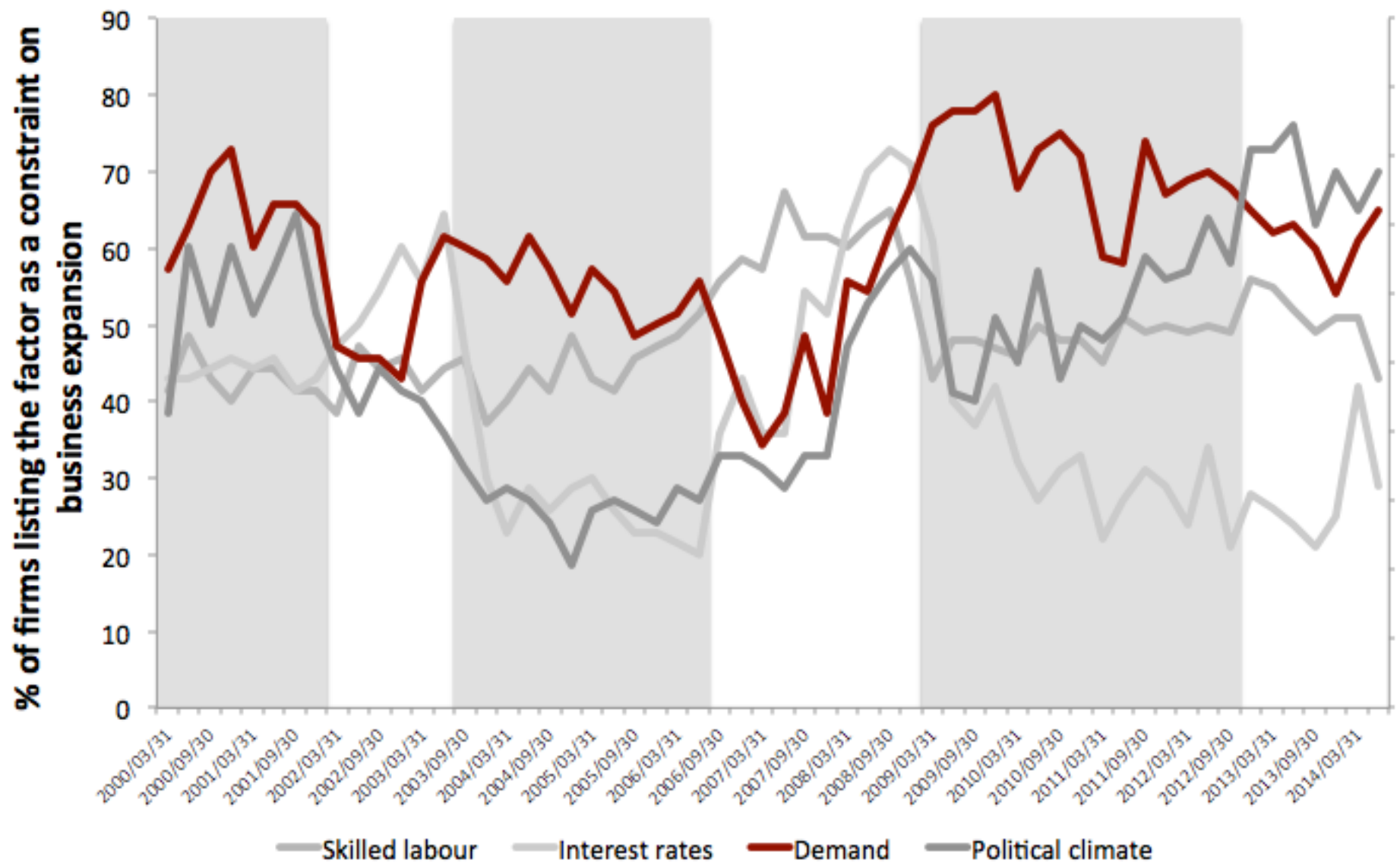
And international risks
have multiplied



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SARB data: CA balance, S and I
ratios

Why is the private sector not investing?

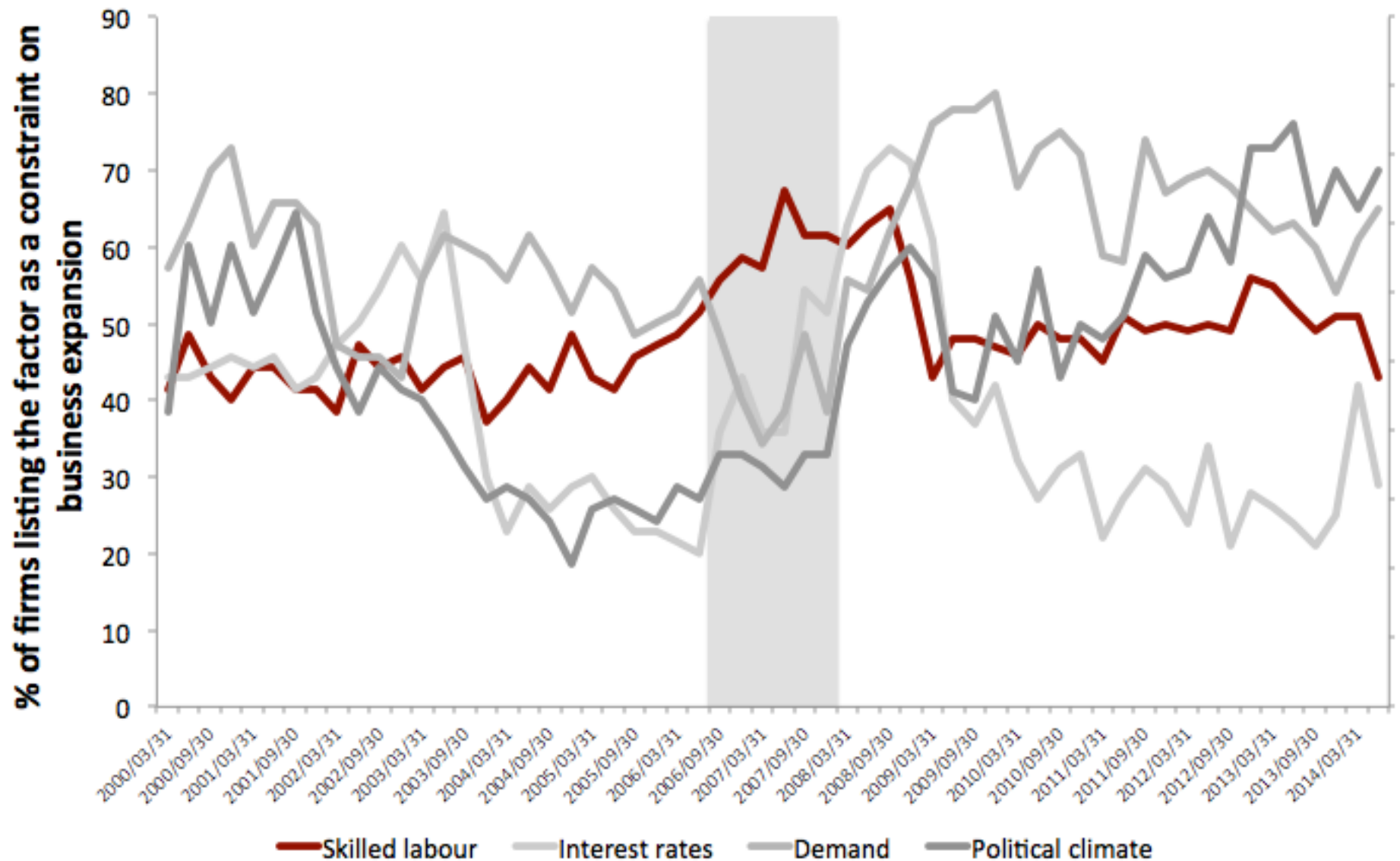


Constraints on business expansion: Demand

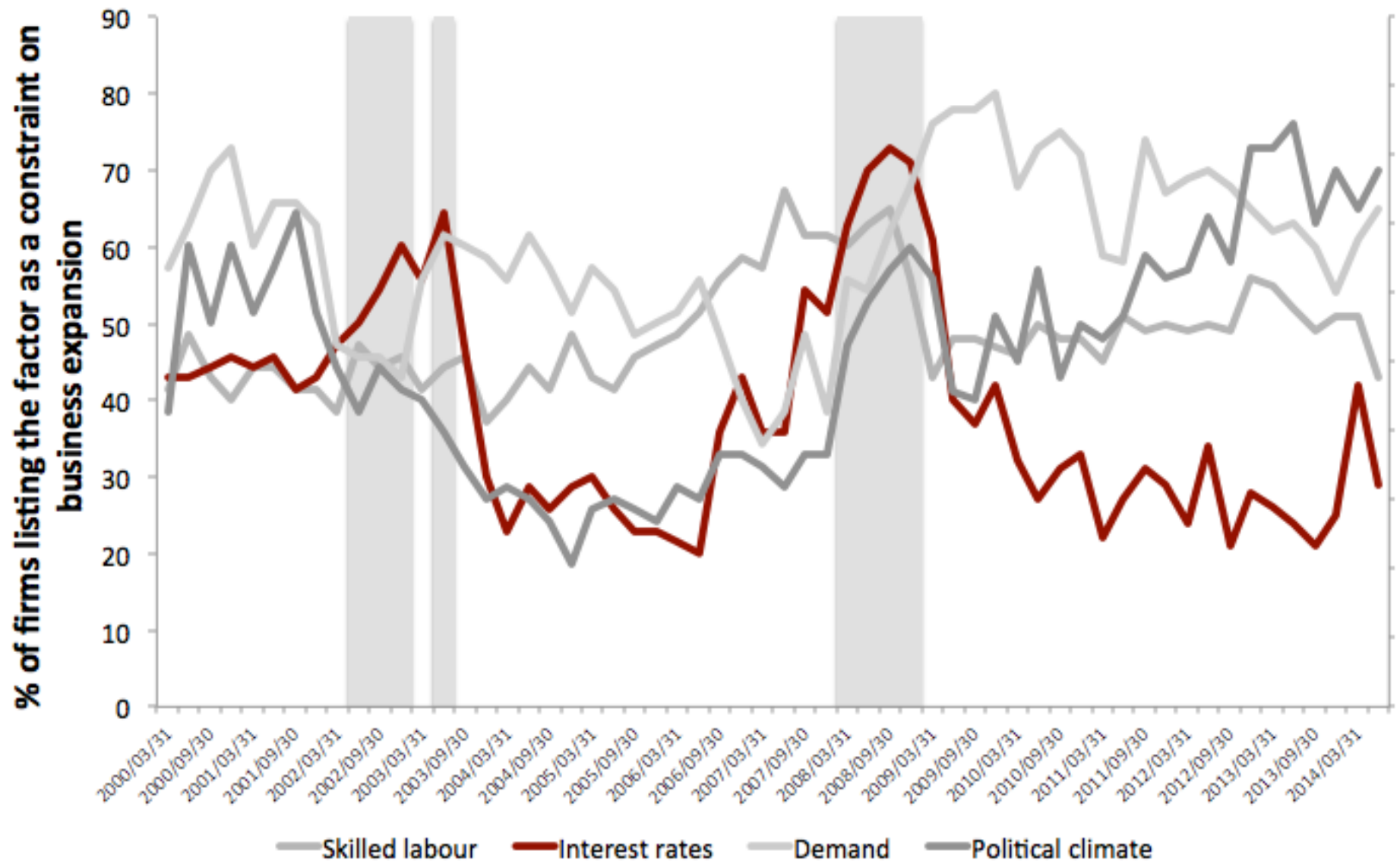


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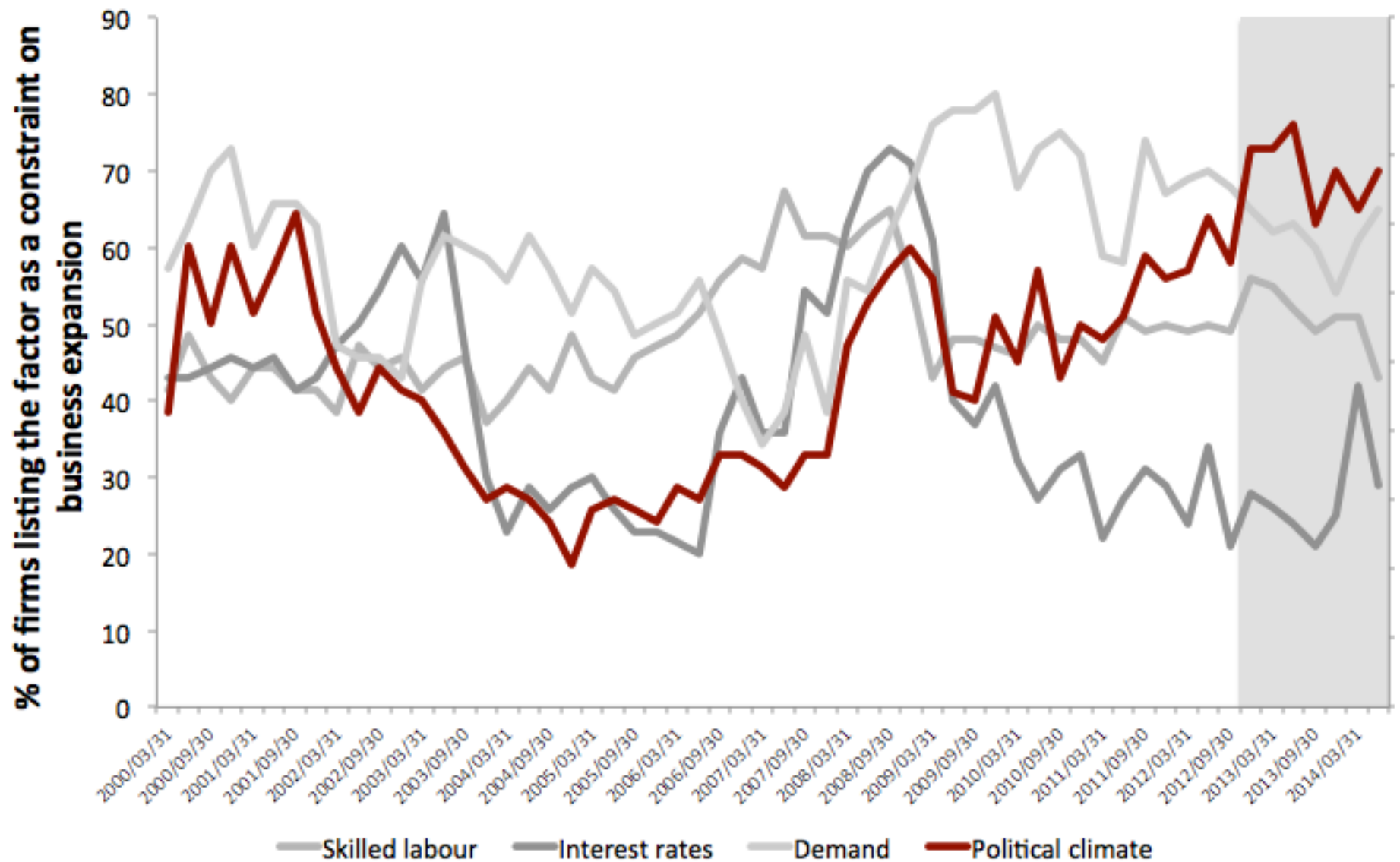
Source: BER manufacturing survey



Constraints on business expansion: Skilled labour



Constraints on business expansion: Interest rates



Constraints on business expansion: Political Climate

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Source: BER manufacturing survey



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What is political uncertainty?

- It is unlikely that these surveys reveal ballot box uncertainty
- It is more likely that they reveal concerns about:
 - **Policy uncertainty**, i.e. the use of government instruments given the institution background
 - **Social sustainability**: the expectation that the institutions (the “rules of the game”) will be maintained
- Under this kind of uncertainty, “wait and see” is a good strategy

How can policy help?

Lessons from 13 growth successes

Factors in growth successes	Policy relevant?
Fully exploited the world economy	Yes: trade, capital flows and institutions
Maintained macro stability	Yes: monetary and fiscal policy
Mustered high savings and investment rates	Somewhat
Let markets allocate resources	Yes: support markets, don't replace them
Committed, credible and capable governments	Yes

Commission on Growth and Development (2008). The Growth Report: Strategies for Sustained Growth and Inclusive Development. Washington, The World Bank.

How did GEAR & ASGISA measure up to the growth lessons?



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Factors in growth successes	GEAR & ASGISA
Fully exploited the world economy	Yes: Trade and capital control liberalisation
Maintained macro stability	Yes: Monetary and fiscal consolidation
Mustered high savings and investment rates	Yes: Tax incentives for investment
Let markets allocate resources	Yes: Privatisation and labour reform
Committed, credible and capable governments	Yes: Planned for more effective public service

How does the NGP measure up to the growth lessons?



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Factors in growth successes	NGP
Fully exploited the world economy	Poor: Protectionism for low productivity sectors and export taxes on primary goods
Maintained macro stability	Good fiscal ideas (counter-cyclical). Less good on easing monetary policy and substantial forex market intervention
Mustered high savings and investment rates	Regulatory uncertainty, especially in mining, undermines investment
Let markets allocate resources	Major problem: proposed solutions often include prices and wage controls
Committed, credible and capable governments	Proposals for a social compact and incomes policy are not credible

How does the NDP measure up to the growth lessons?



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Factors in growth successes	NDP
Fully exploited the world economy	Yes
Maintained macro stability	Yes
Mustered high savings and investment rates	Yes
Let markets allocate resources	Yes
Committed, credible and capable governments	Modest about the capacity of the state and aim at “effective state”

Policy uncertainty

Factors in growth successes	ASGISA	NGP	NDP
Fully exploited the world economy	Yes	No	Yes
Maintained macro stability	Yes	Yes and no	Yes
Mustered high savings and investment rates	Tried	Risk	Yes
Let markets allocate resources	Yes	No	Yes
Committed, credible and capable governments	Tried	Ambitious	Modest

Conclusion

- Disconcerting decline in the economic content of recent policy plans
- The NDP is (encouragingly) much sounder on this criterion
- The major policy initiatives are not mutually consistent and (with the exception of the NDP) do not match the lessons learnt from fast growing economies in the post-War era
- The major economic challenge remains to improve the environment for a dynamic private sector, with the aim of social outcomes such as employment creation and poverty alleviation

the end