
An Appraisal of the RDP and the Macroeconomic Strategy of the South African Government in terms of Conditions for Sustainable Economic Growth and Development

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ABSTRACT

This paper* reviews conditions for sustainable economic growth and development, developed in previous publications and papers by the authors and based on the experience of successfully developing countries. It then analyses the RDP in terms of these conditions and comes to the conclusion that the main deficiency of the economic programme of the RDP, lies in its undue faith in the ability of the government not only to play an enabling, but actually a leading role in economic progress. When analysing the recently released macro-economic strategy of the government (Gear), the paper concludes that it adheres to a considerable extent to the conditions for sustainable economic growth and development. In particular, the role of the government versus that of the private sector has been appropriately adjusted relative to the position in the RDP.

THE CONDITIONS FOR SUSTAINABLE ECONOMIC GROWTH AND DEVELOPMENT

The conditions for sustainable growth and development were identified and discussed by Harmse (1992), Harmse and De Wet (1994 and 1995) and De Wet (1994 and 1995), namely: Efficiency in production (brought about by economic liberalisation and trade through outward-oriented policies) economic stability

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and finally a well-defined and consistent domestic policy mix which includes fiscal and monetary restraint, human development programmes and especially good education, promotion of the manufacturing sector, export promotion and an unyielding policy stance. Several studies on sub-Saharan Africa argue convincingly that the economic realities of Africa call for special attention to imbalances in respect of employment, income, nutrition, health and education, which all affect the capacity of the human resource (UNECA, 1989; Brinkman, 1995; Olofin, 1995). Action which will correct these imbalances, entails the creation of an environment in which human resources are developed, infrastructure is built and expanded, while institutions as well as technological and entrepreneurial capabilities to promote exports are cultivated. Although it is already contained in the third condition, it would make sense to emphasise the importance of the human and physical environment aspect by identifying it explicitly as a fourth condition for Africa. We will denote these conditions by the acronym ESCE (Efficiency, Stability, Consistency, Environment). Let us discuss these conditions each in turn.

(i) Efficiency in production and welfare gains (Harmse & De Wet, 1995:2)

Sustained long-term growth and development depend primarily on increased efficiency in production. From this follow welfare gains such as higher per capita income and increased employment (Harmse & De Wet, 1994:89-93). This efficiency can be sought through various economic growth and development strategies. Outward orientation in the form of trade liberalisation, promotion of manufacturing exports and steadfastness in the application of chosen policies, seems to be the most effective way (Harmse & De Wet:98-99). According to Olofin (1995,10): "Such a growth strategy would have to be capable not only of promoting properly executed import substitution but also export substitution, such that the export ratio would not only rise phenomenally but would be accompanied by diversification in production as well as exports."

A second approach is that of inward orientation. This implies import substitution programmes through protectionist policies (tariffs and quotas), export subsidies in favour of primary products and overvalued currencies (World Bank, 1987:82-83). However, this approach appears to be ineffective over the long term (Harmse & De Wet, 1994:88-89).

(ii) **Economic stability** (Harmse & De Wet, 1995:9)

The second condition for sustained long-term economic growth and development, is internal and external economic stability. If there is no economic stability, no structural adjustment programme (SAP) will bring about economic development (Hiemenz & Langhammer, 1986-125) Also of importance is the way in which a country attempts to effect this stability If it is done the wrong way, serious instability may result. Internal stability means stability in domestic prices and external stability implies balance of payments stability, including that of the real exchange rate and a healthy external debt position. Studies of country experiences (Harmse, 1992) show that adjustment to external shocks and balance of payments crises can accumulate staggering levels of foreign debt in countries pursuing inward-oriented trade strategies. A number of sub-Saharan countries, unfortunately have had this experience.

(iii) **Domestic policy mix and policy consistency** (Harmse & De Wet, 1995:12-

Many studies of trade liberalisation strategies stress the necessity of policy consistency and the correct internal policy mix to assist trade and development policies (Harmse, 1992; Harmse & De Wet, 1994; and Hiemenz & Langhammer, 1986). The challenge to developing countries in respect of their domestic policy approach, is to become outward-oriented, maintain fiscal and monetary restraint, promote saving and investment, avoid excessive borrowing and not to make abrupt changes in policy measures. A wide belief in the Keynesian message has been a main reason for the inability of African economies to move more successfully from primary import substitution to efficient and sustained long term industrial production and exports since the 1960s. Large government deficits and cost-push inflation, fuelled by an increase in the money supply with concomitant low interest rates and the believe that governments must and should manage affairs have been and still are the policy approach in many of these countries (Olofin 1995-13) As is well-known, the Keynesian approach also fosters pump-priming, fine-tuning and other forms of regular policy changes, which are not recommended by the LSCE conditions. Many Latin American and sub-Saharan African Countries stagnate around Primary Import Substitution (PIS) or oscillate between (PIS) and the Secondary Import Substitution phase (SIS), moving from controlled regimes, to partial, feeble liberalization and back to control and strict regulation (Olofin, 1995:12).

The maintenance of positive real rates of interest and stable exchange rates is a prerequisite to attract private savings which can be allocated amongst alternative investment opportunities. A reduced and new pattern of public expenditure is necessary: expenditure on education, health, science and technology, infrastructure and environmental protection must receive the highest priority (Harmse 1992, and Harmse & De Wet, 1994:97-98). (See also Environment.)

(iv) Environment (Harmse & De Wet, 1995:17-19)

Despite structural adjustment attempts, annual average growth in sub-Saharan Africa as a whole declined further from 3,4 per cent (1967-80) to less than 2,0 per cent (1980-1992), and with an average annual population growth rate of about 3 per cent, poverty in the region is deepening (Olofin, 1995:4). Although, according to Olofin (4-7), the main reasons for this deterioration in welfare are low domestic saving and investment as a percentage of GDP plus dismal real agricultural and industrial growth, the inability of these African economies to create a sound environment is just as important.

The creation of the right kind of environment is necessary to successfully enact and particularly to sustain the effect of the first three conditions, namely efficiency, stability and consistency (ESC). The environment must constitute a domain within which economic growth and development can flourish (Focus 48, 1992:4-5). Without human, institutional and infrastructural development, outward-looking growth and development will fail or at best not be sustainable. The conditions for a sound and stable environment involve developing human resources, building of infrastructure, institutions and technological and entrepreneurial capabilities to export (Brinkman, 1995:2). The creation of this environment calls for direct government intervention — the so-called structuralist and neo-structural critique of the neo-liberals (Olofin, 1995:23). Such intervention must, of course, in the light of what has been said in earlier paragraphs, take place in harmony with and in the context of the other elements of ESCE — and in particular with the maintenance of overall fiscal restraint.

It could be argued, however, that a properly developed human and physical Environment is a necessary fourth condition. Efficiency is brought about by outward-orientation and the increase in productivity which flows from the resulting external competition. Without the

development of human and physical infrastructure, the domestic agents and economic processes will simply crumble before the external competition. Yet, viewed from the other side, the development of human and physical infrastructure will never be put into full gear to effect long-term growth and development if the potential is not triggered and propelled into high productivity by competition from outside the country (De Wet, 1995). Thus the addition of a proper Environment in respect of human, physical and institutional infrastructure as a fourth condition towards possible necessary and sufficient conditions for sustained long-term growth and development.

Let us now investigate the extent to which the Reconstruction and Development Programme and the Macroeconomic Strategy of the government adhere to these conditions.

THE RDP AND THE CONDITIONS FOR SUSTAINABLE ECONOMIC GROWTH AND DEVELOPMENT

The RDP addresses all the conditions for sustainable economic growth and development, although its final allocation of roles between the private and the government sector is suspect, while its approach is also likely to miss the target because it covers too wide a field beyond the basic conditions. Its focus on the conditions is furthermore somewhat blurred and its ability to meet the conditions is often weakened by sudden sidetracking.

The RDP senses that development of the manufacturing sector, manufacturing exports and increased competitiveness through outward-orientation or economic liberalisation is important (ANC, 1994:87, 88, 90, 93; RSA, 1994:25). However, there is no real commitment to a strong drive towards developing manufacturing exports and exposing local producers and workers to foreign competition.

The RDP is conscious of the necessity for economic stability (ANC:93). The ANC document is rather silent on monetary and fiscal discipline, but the White Paper is more explicit on the need for both (RSA:22-24, 27, 31-33). Nevertheless, both the Base Document (ANC, 1994) and the White Paper are not enthusiastic about central bank independence. The Reserve Bank must be "accountable to the broader goals of reconstruction and development" (ANC: 112; RSA:27). Yet, both documents mention the importance of stable, consistent and predictable policies (ANC:93; RSA:24). It is recognised that

such policies are especially important with a view to attracting foreign investment, which is regarded as important. However, important as such policies may be, they are not spelled out in any detail. Efficiency in government is also recognised as important. Government will, in addition to abiding by fiscal discipline, have to reduce its consumption expenditure and increase its investment expenditure (RSA:34-37). The RDP is, however, rather silent on liberalisation in the field of exchange rates. In fact, the Base Document wants the monetary authority to be given more resources, "immediately", to combat illegal capital flight (ANC:112). This implies that the RDP is thinking in terms of more control in the foreign exchange market, rather than abolishing it.

When one turns to the correct physical and human environment, the RDP is at its strongest, especially in respect of human resources development. It is clearly stated that development of physical infrastructure is of paramount importance (ANC: 107-112; RSA:25). The RDP uses the poetic expression "unlocking the creativity of our people" when it elaborates on the necessity of developing human resources (ANC:8-11; 58-74; RSA:27) in various ways, and states that "education and training should be available to all from cradle to grave" (ANC:8).

However, the RDP is still very dirigiste and of the opinion that the government will be able to direct and control everything. It leaves no room for doubt that government must play a **leading** and enabling role in **guiding** the economy and market (ANC:80). It is highly suspicious of the market (ANC:82) of privatisation and commercialisation and proposes nationalisation in some instances (ANC:78, 80, 91). The RDP is aware of the stifling effect of regulations (e.g. ANC:77), yet it wants to regulate many activities such as the financial sector (ANC: 110-112), mining (ANC: 99), foreign investors (ANC:93,97), transport (ANC:35) and health services (ANC:43). In fact, it wishes to have structures and processes in place to direct all people, all resources and all activity towards achieving the goals set out in the RDP (ANC: Chapter 6, especially pages 140-142). The main deficiency of the RDP, is the fact that it suffers from an ambiguity: it acknowledges the role of the private sector and the need for some discipline in government activity, but is still at the same time suspicious of the private sector and wishes the government to guide and direct all activity. It wishes to liberalise the economy internationally in certain respects, but envisages more regulation, control and dirigisme in the domestic economy. In the end, it sees the lights of the conditions for sustainable growth and development flickering in the distance, but does not

want to go all the way towards them. It turns out to be much more of taxonomy of what should be achieved in the social and economic field, than programme for achieving these laudable goals. However, in June 1996, a new document was released, setting out in much clearer terms: the government' **strategy** for growth and development (MES, 1996).

AN APPRAISAL OF "GROWTH, EMPLOYMENT AND REDISTRIBUTION: A MACROECONOMIC STRATEGY" (GEAR)

The macroeconomic strategy document starts with an analyses of the economic performance of South Africa after the successful transition to a democratic political system in 1994 (MES:1). It states that monetary policy aimed at bringing down inflation and easing the balance of payments constraint, tax reform and fiscal discipline are already in place. Attempts are also made to open the economy to international competition and secure access to new markets.

Nevertheless it has become evident that the expected real economic growth rate for the next few years will reach only 3,0 per cent per annum at most (MES:1; De Wet, 1995). This is not enough in terms of the goals set by the RDP. The economy will not create enough jobs with the result that the unemployment rate will increase even further. Given the current structure of the economy, the scope for increased public spending on social services is severely limited, while the balance of payments will remain a structural barrier to accelerated growth (MES:3). A new strategy is clearly needed and, hence presented in the Gear document.

The new strategy aims to change the economy towards a competitive outward-oriented system. The targets, core of the strategy and conditions necessary for achieving the aims, are summarised in Table 1 below.

It is clear that these conditions conform, to a considerable extent, to those needed for sustainable growth and development. In fact, it presents South Africa with a state-of-the-art framework for macroeconomic policy. This is not to say that there is no room for improvement in the strategy. There is also no guarantee that the economic growth and development envisaged in the report will in fact materialise, because even if the statistics contained in the report are correct and political reality will allow its full implementation, the strategy may be derailed for administrative and management reasons when implemented.

Table 1: Growth, Employment and Redistribution: A Macroeconomic Strategy Summary

<p>a) Targets Real growth of 4,2% per annum, 1997 - 2000 (MES: 7). Real growth of 6,0% per annum, by 2000 (MES:1). Job creation of 400 000 by 2000 (MES:1).</p> <p>b) Core of the strategy i) <i>Increased exports and investment</i> Accelerated non-gold exports with increased investment and supply-side industrial measures. ii) <i>Increased labour intensity</i> Increase in labour intensity of investment and of output growth. iii) <i>Increased infrastructure and service delivery</i> Accelerated infrastructural development and service delivery, intensively using labour based techniques (MES:2).</p> <p>c) Conditions necessary for achieving the aims i) <i>Outward-orientation</i> Expansion of the export sector by making it internationally competitive through a depreciated exchange rate, gradual relaxation of exchange controls and a liberated trade policy (e.g. lowering of import tariffs) (MES:2,10-13). ii) <i>Stability and profitability</i> A stable environment which will boost confidence and encourage a profitable surge in private investment <u>through</u> tax incentives to stimulate new investment in competitive and labour absorbing projects and the promotion of small and medium-sized businesses (MES:2,10-13). iii) <i>Public sector efficiency and improved social and physical infrastructure</i> Increased efficiency in public sector capital expenditure and service delivery; public asset restructuring (privatisation); better education, health and welfare services, housing and reform and infrastructure creation; fiscal discipline; monetary discipline; good policy coordination (MES:2,7-9,14-16). (iv) <i>Decentralisation in industrial and infrastructural development</i> Sectoral and regional emphasis on industrial and infrastructural development (MES:12-14). (v) <i>Labour market flexibility and human resource development</i> Greater labour market flexibility, enhanced human resource development and productivity (MES:17-19). (vi) <i>Social compact</i> Social agreement between business, labour and government to facilitate wage and price moderation, in underpin accelerated investment and enhance public service delivery (MES:19-20).</p>

Source: MES, 1996.

Nevertheless, the strategy is basically in step with the modern approach towards successful, sustainable, long-term economic growth and development. The implicit, underlying philosophy of the strategy is correct, if one accepts that the private sector and the market have proved to be the best agents of economic growth and development, while the government can and should play a strong supporting role through appropriate policies. The Gear strategy does not put undue confidence in the ability of the government to create and improve welfare by striving to make it the main agent for economic growth and development as was the case in the RDP-document and the subsequent White Paper. Instead, 'Gear offers a policy to government for laying a foundation upon which the private sector can operate and generate sustainable growth and development.

There is still enough concern with redistribution in the strategy, to leave some market-oriented economists rather uncomfortable, but our contention would be that the redistribution objective is presented from the correct angle and within appropriate fiscal constraints. It is, in fact, remarkable that this strategy was endorsed by a government which is hardpressed from many quarters to solve all economic problems by means of government action specifically government expenditure. The following statement in the strategy document illustrates the enlightened approach which is found in more than only a few instances: "In conclusion, large-scale increases in government spending as a macroeconomic strategy will create major macroeconomic imbalances in the form of high inflation, serious balance of payments difficulties and poor long term growth and employment prospects. This does not imply that increases in government spending aimed at addressing backlogs should not be considered under current circumstances - the macroeconomic strategy presented in this document does in fact provide for substantial spending in this respect. It does suggest, however, that increased government spending of the magnitudes required for it to serve as the foundation of growth is likely to defeat the very purposes of the strategy" (MES:49).

The strategy report is conscious of the fact that the South African economy is presently restricted to a growth ceiling of 3 per cent in real terms. It recognises that this ceiling can only be lifted by expanding our exports over the longterm, in order to prevent the inevitable increase in the imports of capital equipment and intermediary goods that accompany an increase in real growth, from causing a balance of payments deficit which will eventually serve to curtail growth. Over the short and medium term, the balance of payments restriction can only be alleviated by long-term, direct foreign investment, since

portfolio and loan capital inflows are easily reversible, as we have again seen recently. To achieve a long-term increase in the level of exports and to attract foreign direct investment, demands a vibrant private sector which senses the possibility of high long-term profits (return on investment). Although the report does not use these expressions, it is clear that this is what implicitly underlies its reasoning. The strategy report makes clear that government cannot achieve this: "What options are open to government? An expansionary fiscal strategy could be considered. However, even under the most favourable circumstances, this would only give a short-term boost to growth since it would reproduce the historical pattern of cyclical growth and decline. Increased growth above 3 per cent would be choked off by a rising current account deficit, upward pressure on real wages and curtailment of investment plans. Higher fiscal deficits would also lead to higher inflation and higher interest rates, exacerbating the burden of interest payment on the fiscus. More importantly, in the present climate of instability a fiscal expansion would precipitate a balance of payments crisis. Without attention to more deep-rooted reforms, there is no possibility of sustainable accelerated growth" (MES:3).

The report, therefore, contains a definite strategy to promote growth and employment (Table 1). It comprises fiscal discipline, including acceleration of the process to reduce the deficit before borrowing as percentage of GDP; relaxation of exchange controls; tax incentives to stimulate (private) investment; lowering of import tariffs; export incentives; public sector asset restructuring (that is privatisation); public infrastructure investment; flexibility in the collective bargaining system to support a competitive production process and a more labour-intensive growth path plus "sensitivity in wage determination to varying capital intensity" (MES:4,5). The report believes that these measures "will establish a stable and competitive environment for significantly improved export and investment growth" (MES:5). Wage increases should be productivity linked (no mention at all is made of wage increases to compensate for increases in the cost of living — that is, inflation-linked wage increases). Emphasis is placed on a reduction in government consumption expenditure relative to GDP. Mention is also made of the implementation of supply-side industrial measures as against demand-side action and the need to avoid excessive tax rates is particularly stressed. Positive real interest rates are regarded as a minimum condition for overall financial stability, and it is emphasised that the underlying conditions which will enable real interest rates to decline, need to be created. The importance of appropriate housing, health and education policies are also

stressed. Finally, the need for effective policy coordination is recognised.

The close correspondence between the macroeconomic policy strategy contained in the government-endorsed report and the general conditions referred to earlier, should now be clear. This strategy is a market-oriented, supply-side strategy, not a demand-side, central-planning-oriented one. It is a strategy which, if successfully implemented and carried through, has the potential to put South Africa on a long-term growth and development route. The big questions are whether the government has the capacity and ability to carry it through, and whether it will have the political support to persist with this programme, unyieldingly and uncompromisingly for several years. Experience in a number of countries (recently also New Zealand) has shown that such a policy will cause initial hardships, and is initially bound to generate growing resistance amongst ordinary voters and various interest groups. To compromise along the way, would unfortunately render the outcome unsuccessful. It may take 5 to 10 years before the results generate enough welfare to create general and unquestionable support. If the resistance which the uncompromising application of monetary discipline alone has created in many quarters over the past six years is to be an indication, the government will need nerves of steel to implement this strategy unyieldingly over the next 5 to 10 years. It is, however, a worthwhile attempt to do so.

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