A Decade of GEAR Orthodoxy…..…. A Season of Hope?

The Minister of Finance is quoted in a Business Day article on Monday, 5 June 2006, saying that 'South Africa's economic policies were not up for review, but the government would further accelerate spending on infrastructure to stop log jams choking off economic growth'. According to the Minister a lot has changed in the 10 years of GEAR. (Business Day, Monday 5 June 2006)

Essentially, the Minister of Finance is insinuating that after ten years of GEAR, our macro-economic strategy remains 'technically' sound, buoyant and on track to deliver on the GEAR promises. GEAR promised to increase annual growth by an average of 4.2 per cent, 1.35 million new jobs by '2000', 6 per cent growth by '2000', and an average of 400 000 jobs annually. Sadly, any honest analysis of the prevailing socio-economic conditions of the working poor, the unemployed and their families would shed much of the GEAR lustre.

The reality is that economic policies over the past ten years have been primarily geared to service the respective prerogatives of domestic and international capital and the aspirations of the black middle class at the expense of the impoverished majority's hopes for a less iniquitous social and economic order. As a matter of fact, evidence shows that the post-apartheid global integration and competitiveness project, facilitated by trade liberalisation, privatisation and work place restructuring, has created new lines of social inclusion and exclusion in the South African society.

The form of jobs created in the GEAR period has been skilled jobs for those in core sectors of the economy who benefit from global integration, low quality and more precarious jobs (such as casual and temporary jobs) for those in the non-core sectors of the economy, whilst a large surplus of labour as a result of massive factory closers because of global competition has been pushed to the periphery zone of the labour market and are either operating in the informal economy or are unemployed.

Meanwhile, whilst GEAR has delivered on its growth promises, 4.9% last year, it has failed to deliver on its jobs promises and thus effectively denting the apartheid levels of poverty and inequality. The most recent illustration of the growth contradiction appeared in a Business Day article, on Wednesday, 28 June 2006. The article indicates that our economy has created a miniscule 9000 jobs whilst boasting a 4.2 per cent annual economic growth rate in the first quarter of this year.

Hence, whilst the GEAR decade certainly produced a 'Season of Hope' for both domestic and international capital and those of the black middle class (through a range of measures such as trade liberalisation, privatisation, lower corporate taxes, BEE), given the prevailing high levels of poverty and inequality, it brought a 'Season of Despair' (as a result of continued economic exclusion) to those at the lower-ends of society.

But what is the mischief? The main mischief is the structure of the South African economy and the nature of our growth process.

In terms of our economic structure, the central objective of the policy reform package introduced at the beginning of the democratic era was to restructure the economy inorder to render it internationally competitive. The South African incorporation into the world economy narrowly rested on three pillars:

- exporter of raw materials
- imported of both capital and labour-intensive goods
- recipient of portfolio and Foreign Direct Investment

Evidence shows that South African export-led growth, while beneficial to the balance of payments, is unlikely to immediately affect levels of unemployment, given the capital-intensity of the export sector, unless labour-intensive downstream industries can be developed.

The South African industrial focus seems caught in a paradox. It is geared towards swelling trade flows that are based on largely capital-intensive exports and an influx of labour-intensive imports against a background of rising unemployment and poverty. Given the emphasis on high-value added products, export production tends to by-bass low skilled labour. This is underscored by the high rate of job losses in the export-oriented sectors that have shifted resolutely to capital-intensive production. Whilst this trend is not new, it was allowed to continue during the post-apartheid economic trajectory.

In this context, the fundamentals of our macro-economic strategy deserve critical re-examination. The architects of GEAR tend to present the strategy in 'There Is No Alternative' terms, and this has served to stifle the economic debate. Yet the fact of the matter is that whilst our economic policy might be apt to foster growth and international competitiveness, it is not aligned to the economic and political imperatives of reducing mass unemployment and poverty.

From a policy perspective, greater emphasis is needed on structural changes in production and ownership and policies that will support relatively labour-intensive activities. An increase in exports should be focused on labour-intensive industries, not minerals and heavy chemicals. Local labour-intensive industries should also not be threatened by imports, but should have space to consolidate.

Government should implement policies that eliminate distortions favouring the use of capital at the expense of labour, thus shifting incentives towards more job rapid job creation. These policies can include higher taxes on capital and profits and reduced subsidies.

Also important is to strike a more advantageous balance between production for exports and domestic markets, inorder to boost the economy's ability to absorb surplus labour. Evidence shows that FDI is more likely to flow to vibrant economies with strong internal demand.

The challenges of poverty and unemployment should be foregrounded in economic policy and not relegated to separate welfarist interventions for the so called 'second economy'. Surely the acid test of the success of an economy is the degree to which it is able to generate employment and improve the living standards of the population.

Relegating these issues to a ‘second economy’ is hardly an appropriate way to integrate unemployment and poverty in mainstream economic policy.

Incidentally, the analogy of two economies is itself misleading for it assumes the existence of a Chinese wall between the two. This then enables the state elites to suggest that the formal economy is doing well and should be left untouched for it is modern, efficient, and internationally competitive. The ‘second economy’ is seen to be deficient and requires both policy reform and social assistance for its inhabitants. There are a number of factual inaccuracies and conceptual problems with this idea. Firstly, evidence shows that the informal economy contributes between 8-12 per cent of GDP. Secondly, there are a number of forward and backward linkages between formal and informal economic activities. Hence, informal economic activities should not be seen as a separate sector or economy, but as part of the entire economy.

Finally, the extent to which South Africa’s macro-economic policies support sustainable development has to be a central component of any worthwhile evaluation of the country’s economic policies. A major challenge within South African government departments – as elsewhere in the world – is the enormous and growing influence of technical ‘experts’ in the context of increasingly complex and interconnected national and international economic policy making and policy requirements. Since, the start of the GEAR project in 1996, the terrain of economic policy has become increasingly depoliticised and desocialised, and turned into the stamping ground of technical experts.

However, in whatever ways technical officials may see or present themselves and their recommendations, no analysis are neutral or merely ‘technical’. Thus, a more effective and sound system of economic governance has, at the most basic, to be based upon political establishment of clear policy frameworks and comprehensive strategic perspectives within which technical personnel are required to carry out their work.

But the formulation of such a broader strategic framework is not straightforward because the deliberate and deliberated political and economic strategy levels of government rely upon the advice of the very same ‘experts’ to formulate such overall policy. This is something of a chicken-and-egg situation. In order to break out of this cycle and counter the excessive influence of small numbers of technical personnel, other operational modalities and organisational means are essential to ensure broader and more varied sources of analysis and information both from within and outside of government.

A related issue pertains to the impact of economic growth on poverty reduction. Broad evidence of the post-apartheid economic trajectory shows that growth has had a tepid impact on poverty reduction during the GEAR decade. The reality is that the visible increase in economic growth since 2000 failed to produce a concomitant increase in employment and thus affecting current high levels of poverty.

The central causes of poverty amongst the poor are unemployment, underemployment and low earnings. Hence, for economic growth to reduce poverty at a faster pace, the nature of the growth process must be such that the forces creating unemployment and underemployment are weakened. This depends on three underlying factors:

- The growth factor – the rate at which the production potential of the economy expands or the growth rate.
- The elasticity factor – the extent to which a higher growth rate enhances the employment potential
- The integrability factor – the extent to which the working poor can take advantage of new employment opportunities

According to liberal philosophy, the only way employment can be expanded in a stagnant economy is either by depressing the returns to labour (through restructuring and privatisation) or by increasing the rate of underemployment. Neither route is good for the working poor.

The elasticity factor refers to the ability of any given growth of production to stimulate the growth of employment potential. Recent evidence shows that our employment elasticity has recorded a meagre 0.91 per cent, between 1995 and 2005, and thus lagging far behind production growth. This means that a small number of jobs are being created for every one-percentage growth in total production. Hence, unless the future growth potential of the economy is associated with a larger growth in employment – that is, one that is more employment elastic, problems of unemployment and underemployment will continue.

Higher levels of employment elasticity could be achieved by:

- *Concentrating higher production growth in labour-intensive sectors*
- *Prioritising labour-intensive production techniques, especially in the growing sectors, and*
- *Ensuring that internal and external terms of trade improve the labour-intensive sectors and for the products produced by the self-employed*

High elasticity of employment does not, however, necessarily entail higher incomes for the poor. All it does is to allow the working population as a whole to reduce their unemployment and underemployment. Much depends on whether the poor possesses the necessary attributes that will enable them to integrate fully into the workings of an expanding economy.

So, even a combination of rapid growth and high elasticity does not guarantee a rapid rate of poverty reduction. If the employment opportunities are such that the capabilities they demand do not match the capabilities of the poor, then non-poor workers will siege the opportunities or perhaps the opportunities will not be seized at all. Much therefore depends on the correspondence between the structure of opportunities that are opened up and the structure of capabilities possessed by the poor. For example, the working poor, who predominantly possess low skills, have very little to benefit from skill-intensive economic activities.

Empirical evidence garnered from a 2005 paper prepared under the joint ILO – UNDP programme on promoting employment for poverty reduction illustrates this point. For example, in Uzbekistan a modest growth rate of (2,7 per cent) has been associated with a very high rate (9 per cent) of poverty reduction, between 1997 and 2001. The paper argues that this is not only the exceptional experience of Uzbekistan where relatively slow growth was associated with a very rapid rate of poverty reduction.

Even in the cases where faster growth was associated with faster poverty reduction, the impact of growth on poverty was by no means uniform. The poverty reduction impact of growth thus depends on both the extent of elasticity and integrability of the growth.

In this context, one can argue that it is not the level of growth (6% or more) as envisioned by the current ASGI-SA programme, but the extent to which our growth process is employment elastic and accommodate the skills attributes of the working poor that will ultimately determine the impact of economic growth on poverty reduction. .

In conclusion, we need to develop integrated proposals that appropriately balance economic, social and developmental concerns on specific issues. We need to adopt a 'systemic coherence approach', which requires looking at all policy frameworks and determining if and how different policy domains reinforce each other in support of development. A partial, piecemeal or fragmented outlook on policies lead to inconsistencies and competing outcomes among policies governing trade, finance, labour, etc. and leave out important aspects of a comprehensive developmental agenda.

For example, GEAR called for labour market flexibility and wage restraint as the panacea for structural unemployment. GEAR saw labour market flexibility as a key element of its job creation strategy. However, this prognosis ignored the reality that job creation does not necessarily reduce poverty if employment is created mostly in low-wage jobs. Access to quality employment is an essential way of achieving sustainable livelihoods, which in turn is a crucial means of reducing poverty and inequality. Poor people face the problems of both unemployment and the low quality of jobs which they otherwise occupy. The challenge is therefore not only to create jobs, but to create better quality jobs. Hence, the impact of labour market policy on job creation cannot be assessed in isolation from the related impact of other important policy realms on job creation such as macro-economic and industrial policies.

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