

# Seeraj Mohamed proposal for Jobs Summit

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## 1 Problem statement

The approach taken by Government to macroeconomic policy and finance policies since 1994 has generally followed mainstream economics and neo-liberal principles. These policy choices have shaped the evolution of the economy in a way that has not supported investment and employment in productive sectors of the economy. Instead, the policy choices have supported the growth and dominance of the finance sector while exacerbating the structural weaknesses of the economy with regard to its shallow and undiversified industrial sector.

The approach taken has not been supportive of a developmental state in South Africa. Government's approach to economic policy while stating a concern for addressing the legacy of apartheid and the related problems of poverty, unemployment and inequality have been focused on creating a business friendly economy that has liberalised trade and finance relations and supported neoliberal global economic integration. These policy choices mean that government while expressing concern for the poor remains focused on concerns of international financiers and credit ratings agencies when developing longer term economic plans and policies and in the short-term when developing the fiscal framework, medium term expenditure frameworks and annual budgets. Government's policy choices have reduced a fair measure of their economic policy sovereignty and given much influence to the wealthy, international financiers and credit ratings agencies and the advice of the World bank and IMF.

This proposal seeks to open up the debate about implementing policies and an approach to economic policy that supports a developmental state in driving development of the economy in a way that increases job creation and addresses poverty and inequality.

## 2 Jobs impact

The potential of South Africa's unemployed and underemployed citizens, irrespective of their skills and education, remains untapped. A developmental state that pursues economic policies aimed at transforming the economic structure of the economy will treat all citizens as valuable contributors to the economy and implement policies and programmes to support the employments and activities of all citizens to help them and the economy develop and build its potential.

## 3 Theory of change

On the whole, the approach by government to the economy since 1994 when it does macroeconomic policy and international finance betrays a narrow view that the economy is located in urban centres where banks and other financial institutions are generally located. Sectors such as mining, manufacturing and agriculture enter into this view of the economy

occasionally. On the whole in this view of the South African economy, poorer households, the smaller urban centres and rural areas are treated as recipients of government largesse and a burden on the fiscus. These are constituents whose expectations they see as having to be managed politically and their living conditions and socio-economic rights are to be seen to be slowly achieved based on what is seen as affordable. The view of the state in this approach is one that is the opposite of a developmental state.

A developmental state view recognises the large and crucial role that state institutions play as a direct actor, consumer, producer, employer, owner, manager and investor in the economy and in supporting the economic activities of households and other private actors. The neoliberal view of the state dominant in Government now is one that treats public sector employees as inefficient, potentially corrupt and a cost to the state that diverts revenues from service delivery and infrastructure development. A developmental state approach would see the public sector as an important asset and harness their skills and talents towards driving employment creating development. The approach to macroeconomic and finance in this alternative approach is to make finance a slave to achieving the developmental goals of the country and to pursue an approach to macroeconomics that supports the microeconomic and local interventions that develop the state and the economy in ways that stabilise the economy beyond what is narrowly viewed to be economic stability in mainstream and neoliberal economic thought.

## **4 Existing initiatives/experience**

Unfortunately, not in South Africa.

The experience of the USA and most western countries that adopted welfare states informed by Keynesian economics where domestic finance was tightly regulated and international financial relations were coordinated through the Bretton-Woods arrangements, including widespread use of capital controls and exchange rate managements during the period after WWI until the late 1970s, provides good lessons. Many developing countries, across Asia and Latin America and some in Africa, also used similar policies to rapidly industrialise after WWII. South Africa, even though there was apartheid, pursued large-scale state support for industrialisation and growing the economy and state institutions such as the IDC, SABS, CSIR etc were set up and used to support industrial development. Capital and exchange controls as well as regulations on private finance and exchange rate management was also used.

The Japanese and later the Asian Tigers' states had tight control of finance and the allocation of finance, they used capital and exchange controls as well as managed exchange rates. Not only did they expand employment rapidly they also reduce poverty and inequality within one generation.

China followed similar policies to Japan and the Asian Tigers, has tight regulation of finance and the allocation of finance and manages its exchange rates and uses capital and exchange controls. It has had the fastest rates of industrialisation and employment creation.

In all these examples. macroeconomic and finance policies were subordinate and served the reconstruction, development and full employment goals of their states and the microeconomic policies and interventions used to pursue those goals.

## **5 Constituency participation in implementation**

There is need for a debate about macroeconomic and financial policies and in general how to build a developmental state in South Africa. Since the announcement that GEAR was not up for debate in the mid-1990s, the debates about macroeconomic and finance has seemed curtailed and inadequate. All constituencies should actively and vigourously engage in this debate and actively participate in building the developmental state.

## **6 Benefits**

Everyone would benefit from the opening of the debate and changes to the policy that would support inclusive and transformative development of the SA economy.

## **7 Cost and potential sources of funding**

N/A

## **8 Risks**

Government and other constituents, such as business. will not adequately engage in this debate and, as they have done many times in the past, dismiss the arguments for alternative approaches to economic policy without feeling they have to discuss and engage with these alternative ideas.

There are not enough economists with alternative economics perspectives to support a vigorous debate and to draw up plans for alternative economic policies.

## **9 Risk mitigation**

A broad range of government representatives not just NT should be part of the discussion on alternative economic policies and approaches.

The few economists and other supporters of alternative economics views should be given adequate space, support and time to present their views.

At some point, the economists that have alternative views should be able to choose like-minded economists from other countries to support and help draw up alternative economic views and policies and implementation plans.

## **10 Additional comments**

South Africa has followed a mainstream, neoliberal approach to macroeconomic and finance policies for almost a quarter century. These policies have clearly failed. It is time to acknowledge that failure and to discuss and implement alternatives that have a better likelihood at success. These alternatives should help to build a developmental state in South Africa where the central and crucial as well as transformative and developmental role if the state is understood and harnessed.