

# Summary of Critique of the National Development Plan, March 2013

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*This document summarises part of the draft CEC discussion paper, on ‘Mangaung and the Second Phase of the Transition’, tabled at COSATU’s February 2013 CEC. It only covers the elements of the paper, dealing with a critique of the NDP. We have excluded a number of extracts from the NDP, and rather cited page numbers in the Plan where the relevant parts can be found. The full COSATU discussion paper is available at [www.cosatu.org.za/docs/discussion/2013/analysis.pdf](http://www.cosatu.org.za/docs/discussion/2013/analysis.pdf)*

## 1. National Development Plan on the economy, and the second transition

### *Problems in interpreting the NDP*

Certain aspects of the Plan make it extremely difficult to interact with and interpret:

- ❖ Its complexity and length– it runs to 484 pages, and is written in an often highly inaccessible way;
- ❖ Huge effort has gone into packaging it in a supposedly sophisticated manner, to appeal to various constituencies, by appropriating certain buzzwords and popular concepts, but trying to avoid open controversy. In the process, it masks more than it reveals;
- ❖ The NDP often speaks in code, requiring painstaking analysis to uncover its underlying theoretical and philosophical approach, and the true character of its proposals, both in analysing what it does say, and what it omits to say;
- ❖ Because it is a report emanating from academics and experts coming from different perspectives, it is inconsistent in a number of respects, and contradictory in others. Further, Presidency and seconded Treasury bureaucrats have placed their own perspectives into the document. It is no secret that a number of commissioners were unhappy with certain elements of the NDP drafted by the NPC Secretariat, and never formally signed off on the final product;
- ❖ It selectively draws from certain government policies and programmes and ignores others. Proposals ignore or contradict critical elements of the NGP/ Ipap, which are supposed to be governments lead strategies over the medium term. This creates confusion as to which policy prevails, and undermines the greater degree of co-ordination which was emerging through e.g. the infrastructure plan, and the PICC;
- ❖ The Plan itself is riddled with inconsistencies and errors, as well as selective and incorrect interpretations of key literature. It completely confuses a number of its own figures and projections on poverty, employment etc. and makes elementary mistakes in terms of what these say – see box below. This is extremely shoddy for such a key document, and raises questions as to how many more mistakes have been made.

## Do we support the NDP Vision?

It was proposed at Mangaung to endorse the *vision* of the NDP. However, when the Mangaung resolution endorses the 'vision of economic transformation', it is going way beyond the *Vision Statement* of the NDP (pp 12-22) which is really a 10 page poem, talking in very lyrical terms about the future South Africa.

The vision of economic transformation outlined in the NDP on p118 sets out the type of targets the plan is striving for by 2030, with intermediate targets in 2015 and 2020.

EMPLOYMENT TARGETS (2010-2030)				
Millions	2010	2015	2020	2030
Non-working age population	18	18.2	18.8	20.6
Working age population (15-65)	32.4	35.1	36.5	38.8
Labour force participation rate, percentage	54%	57%	60%	65%
Labour force (million)	17.5	19.8	21.9	25.3
Age dependency, ratio	1.6	1.5	1.5	1.5
<b>Employment target</b>				
Unemployment rate, percentage	25%	20%	14%	6%
Employment (million)	13	15.8	18.9	23.8
Net new employment needed (million)	0	2.8	3	4.9
Dependency ratio	3.9	3.4	2.9	2.5

Under these conditions:

- About 41 percent of the working age population between 15 and 64 would be employed. The aim is to increase this to 52 percent by 2020 and to 61 percent by 2030.
- Real GDP more than doubles (implying average GDP growth of 5.4 percent between 2011 and 2030. At this rate of growth, there will still be substantially more reliance on very low-income employment, survivalist activities and public employment schemes.
- The proportion of the population with income below the poverty measure of R418 per day (in 2009 rands) falls from 39 percent in 2009 to zero in 2030. The level of inequality will fall from 0.7 in 2010 to 0.6 by 2030. The share of income going to the bottom 40 percent of income earners rises from 8 percent to 10 percent.

On average, the dependency ratio (the number of people depending on one wage earner) will fall from 4 to 2.5. In low income households, this ratio will fall from an average of 5 to 6 down to 4 to 5. A falling dependency ratio will be a central contributor to reducing poverty and inequality.

These targets for 2030 seem positive, and ambitious. But close scrutiny reveal that aspects of this economic vision are actually quite problematic:

The headline is that the Plan proposes to create nearly 11 million jobs by 2030, and to reduce the unemployment rate to 6%. Further, that it proposes a reduction of inequality, and the elimination of extreme poverty by 2030. On the face of it this picture looks very good. However, when we subject this vision to further scrutiny, serious problems emerge ...

1. The **definition of unemployment** used is totally **unrealistic**: it uses the official or limited definition which *excludes* all discouraged work seekers (over 3 million unemployed workers are excluded from this definition<sup>1</sup>). Its figure for unemployment is 25 % for 2010, as opposed to the more realistic rate of over 36 %. The 6 % target lacks all credibility, and needs to be recalculated to include all the unemployed excluded by the NPC definition.
2. It proposes too many **low quality and unsustainable jobs**: the target of 11 million jobs by 2030 is based on a plan which is unsustainable, relies disproportionately on exports, and particularly S M M E jobs, as well as jobs in the service sector. If the plan is followed, it is highly likely that many of these jobs won't materialise, and those that do materialise, will mostly be of low quality. The Plan concedes that it is based on the creation, particularly in the first 10 years of low paying jobs, as opposed to decent work<sup>2</sup>. It fails to pursue the NGP/IPAP vision of reindustrialising the economy, with manufacturing at the centre.
3. The NDP vision is based on the acceptance that **high levels of inequality** will persist until 2030; contrary to the policies of the movement that redistribution must form a critical basis of the new growth path. The Plan proposes that the Gini coefficient, which measures income inequality, will decrease from its current world-beating level of 69 % (or 0.69) to an excessively high 60 % (or 0, 6) by 2030. In terms of current measurements, 60 % would still make our levels of inequality higher than any other major country in the world! This target is an embarrassment for a country claiming to be serious about combating inequality. The average Gini for OECD countries, which by no means have low levels of inequality, is between **25-35%** after taxes and transfers<sup>3</sup>.

Linked to this, it proposes that **massively high levels of concentration of wealth and poverty** will still be in place by 2030. It proposes to increase the share of income going to the *bottom 40% of income earners* from the current 6 % to a *mere 10%*. The ambition of the NDP is that nearly half of our people should receive 10 % of the wealth after 18 years of implementation of the national plan!

4. It uses a **very low poverty measure** of R418 per person, per month (2009 prices), suggesting that those households with an income of more than R2000 per month are not living in poverty. It argues that 39 % of South Africans in 2009 fell below this level, and that by 2030 no-one will fall below this level. But there is no basis for this poverty measure. The Household Subsistence Level, and Supplemented Living Level<sup>4</sup>, calculates the *minimum income* a family of five needed to afford basic necessities, as around R3500 per month in 2009, against the NPC figure of about R2000. Over 50 % of South Africans live below the R3500 level. There is no scientific basis for the NDP measure, beyond the well-known drive of Treasury to keep poverty line calculations as low as possible. Therefore the NDP projections on poverty levels are highly suspect and problematic.

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1 Stats SA Quarterly Labour Force Survey Q4: 2011

2 It states that “there will still be substantially more reliance on very low-income employment, survivalist activities and public employment schemes.” P 118

3 [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_income\\_equality](http://en.wikipedia.org/wiki/List_of_countries_by_income_equality)

4 Calculated by Unisa, and UPE respectively

Therefore the big picture vision of the Plan is based on dubious assumptions, and problematic strategies, which leave the highly unequal structure of our economy, and economic marginalisation of the majority, essentially intact, with some tinkering around the edges. This is not a vision therefore which we can embrace with any enthusiasm.

## Key Economic Assumptions of the Plan

There are certain assumptions on the economy which tend to dominate the Plan. These relate to 3 major overlapping themes: elements of the employment strategy proposed by the Plan to achieve its target of 11 million jobs; issues relating to transformation of the structure of the economy and society; and proposals to transform the labour market.

## I The NDP's Employment Strategy...

### 1. *Is SMME-focused, with a vision of 'mass entrepreneurship' and deregulation:*

The NDP makes the startling claim that “90 % of jobs will be created in small and expanding firms”. It goes on to say “By 2030 the share of small and medium sized firms in output will grow substantially. Regulatory reform ... will boost mass entrepreneurship. Export growth ... will play a major role in boosting growth and employment, with small and medium sized firms being the main employment creators.”(p119)

In other words, the plan is based on the belief that **9, 9 million of the 11 million jobs will be created by SMME's** (including the notion of 'expanding firms' which is never defined in the NDP)! Therefore the NDP's employment strategy stands or falls by this claim.

The NDP bases this claim on a survey by an organisation called Finscope that 90 % of jobs created between 1998 and 2005 were in SMME's<sup>5</sup>. This claim is not supported by labour force data over the last decade, which shows little increase in the share of employment by SMME's. In January this year, two UCT economists, and the Stats SA DDG for methodology and standards, published a study of relative job creation and job destruction amongst about 18 000 large and small firms in South Africa between 2005–2011<sup>6</sup>, whose conclusions have devastating results for the employment strategy of the NDP.

The study found that, contrary to the general perception, far from most job creation being generated by SMME's, “*large firms have a higher rate of net job creation than small firms*”. Over this period, they found that *job creation for largest firms* (over 5000 employees) was 3 % higher than job destruction; and *job destruction rates were 4% higher* than job creation for the smallest firms (0-19 employees). Therefore they suggest that the NDP projection that as much as 90 % of new jobs will come from SMME's is highly unrealistic.

The researchers also conclude that, contrary to the NDP analysis, labour legislation “may not be as onerous for firms, or cause as much rigidity in the labour market as is sometimes believed”. Therefore two key pillars of the NDP's employment strategy– the centrality of

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<sup>5</sup> Even this survey does not appear to support this conclusion, but rather finds that most employment is created by formal enterprises.

<sup>6</sup> Andrew Kerr et al “*Who creates jobs, who destroys jobs? Small firms, large firms and labour market rigidity*”  
<http://www.econ3x3.org/node/135>

SME's in employment creation; and the notion that deregulation, particularly of the labour market, is key to this job creation– are being exposed as fundamentally flawed, and contrary to existing evidence.

The key to the NDP's 'employment strategy' which was in significant part driven by Treasury-aligned technocrats lies in the old Treasury agenda of deregulating labour markets. It argues that SME's in the manufacturing sector are 'hardest hit by labour laws and other regulatory burdens'. The most far-reaching proposal is that a comprehensive new dispensation for SME's should be introduced, and that all new regulations be assessed on the basis of the impact that they have on SME's, including regulations in relation to business registration, tax, labour and local government. (p143) Therefore all legislation will be reviewed and amended, to massively promote deregulated SME's, and entrench dual labour markets. This is an agenda for the race to the bottom. Yet, many agree that the key challenges confronting SME's relate to lack of credit, lack of skills, markets, the concentration of economic power etc. , and that if these issues are addressed, SME's can be part of a decent work agenda, rather than a sweat-shop economy.<sup>7</sup>

The SME jobs will be low-paid: "In the earlier years, as the country expands access to employment on a mass scale, a large proportion of working people will receive low pay."

P114: This therefore completes the picture of a SME-dominated, low wage employment strategy, very different from the decent work policy mandate of the ANC and Alliance, as well as economic policy documents of government. We explore this further below.

## 2. *The NDP on Service vs manufacturing: a strategy for low quality jobs vs an industrial strategy*

The NGP and IPAP place the reindustrialisation of the South African economy, and the region, at the heart of the new growth path. And central to this vision is the vital role of a radically expanded manufacturing sector as the engine of the economy. This lies at the heart of the growth path, not just because of the numbers of people employed in manufacturing, but also because of its multipliers, which are critical to alter the character and trajectory of growth, and to build a more equitable economy. The new growth path deliberately aims to move away from a narrow consumption-led (particularly luxury consumption), financialised, and service driven economy, perched upon an untransformed minerals sector. The NDP, as a matter of deliberate choice, fails to take this vision of industrialisation forward, but rather proposes strategies which entrench some of the worst features of the old growth path.

There is no industrial strategy in the NDP. The first phase (2013– 2018) of the NDP strategy revolves around a low-wage, service led, and SME focused perspective. There is no attempt to engage with the IPAP or the NGP, even though they also cover this medium term period. In fact there is not a single reference to the IPAP in the entire 484 page document!

Bizarrely, the NDP proposes to postpone interventions to **the second phase (2018– 2023) of the Plan**, which are **already being carried out** in terms of the strategies of the IPAP, NGP, and infrastructure programme, including on: diversifying the economic base; building capacities required to produce capital and intermediary goods for the infrastructure programme and sub-Saharan Africa; resource-cluster development for the mining industry, production of capital goods, and beneficiation. NDP p157

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<sup>7</sup> Even the anti-union Small Business Project, quoted in the NDP p142, concedes that double the percentage of small businesses surveyed (about 38 %) saw "bad economic conditions" as the top factor discouraging expansion of staff, while only about 19 % saw labour regulations as the main inhibiting factor.

The NDP attempts to substitute the IPAP with a cluster strategy, but because the drafters don't really believe in a state-led industrial strategy, it is half hearted, fails to propose serious measures to transform the structure of the economy, and is premised on the virtues of competitiveness, exports, and the unleashing of market forces. In that respect, while less blatant in its language, it takes us back to the 'industrial strategy' of Gear, which was premised on liberalisation, deregulation and the cold wind of competition – a strategy which has succeeded in delivering *deindustrialisation*.

The scenario which the Plan supports, known as the "diversified" Scenario 3 in the NDP, is anything but diversified. As seen in figure 3.2 on sectoral distribution of employment– p122, the share of manufacturing in total jobs *shrinks* from 11, 8 % in 2010 to 9, 6 % in 2030<sup>8</sup>. At the other extreme, all services ('leader' services, and 'follower' services combined) increase as a percentage of total employment from around *30% in 2010 to nearly 40% in 2030*, an increase in 5 million jobs. Of the 11 million new jobs envisaged in the NDP, nearly two thirds will come from services, domestic work and the informal sector. Hardly an industrialisation or diversification strategy!

The NDP attempts to present this approach as inevitable, and in line with comparable countries internationally: "Most jobs are found in domestically oriented services such as retail, personal services, security, domestic work and office cleaning, *where productivity and wage growth is lower*." The implication is clear– manufacturing is marginal, services are central, and we will have to accept that low paid work will dominate, until we get to the NDP's phase 3 of building a 'knowledge economy'. It fails to reflect on the fact that the existing growth path has mutated into this consumer-driven, service-centred economy, with disastrous economic and social consequences. To now deliberately reinforce it in our 20 year plan is the height of folly.

The second implication drawn by the NDP is that we will have to come to terms with the 'international reality' that atypical work now predominates, and therefore by implication we must adapt to the reality of insecure work, contracting out, labour broking etc– see NDP p112

### 3. *The NDP's Cluster Strategy*

Without going into the detail of the 'sector and cluster strategies'<sup>9</sup> (p144–153), one can highlight some key issues emerging from some of the clusters:

- **Agriculture:** in its preferred scenario, the Plan shows only 180 000 jobs being created<sup>10</sup>. The NDP clearly has no confidence in the possibilities of realising the jobs potential of agriculture, in contrast to the NGP, which sees agriculture as being a major source of new jobs. In terms of the value chain, it makes no reference to how to deal with the abuse of concentration of economic power by the retail chains and the negative impacts this has on the agricultural sector.

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<sup>8</sup> This is even worse when considering manufacturing jobs as a proportion of the total, excluding the informal sector and EPWP– its share declines from 15, 2 % in 2010 to 12, 2 % in 2030.

<sup>9</sup> In fact the plan tends to confuse clusters, sectors, and value chains (which draws the connection between different stages of processing and production e.g. farming and agroprocessing; diamond mining and fabrication of jewellery)

<sup>10</sup> This is a particularly cautious approach for a 20 year plan, when the Stat SA labour force survey shows an increase of 55 000 jobs in farming, just in 2012.

- **Minerals and metals:** Instead of proposing the need for radical intervention in a sector which ruthlessly strips South Africa of its raw materials and exports the capital made from its super-profits, the Plan parrots the business mantra as to why the sector is facing difficulties. It then takes a side-swipe at beneficiation stating that “In general, beneficiation is not a panacea because it is also usually capital intensive, contributing little to overall job creation.”<sup>P146</sup> It ignores the difference between different forms and stages of beneficiation which are more or less capital intensive, and chooses to only focus on ‘backward linkages’ or the supply of materials and equipment to the sector. It also fails to take on board the extensive work done by the ANC on options for regulation of the sector. In other words, it is a business as usual message to the industry, with some tweaking here and there.
- **Manufacturing:** The Plan gives this vital sector virtually no attention, and dispenses with it in half a page (see p 148). There is certainly no sense that the sector should be the engine of the new growth path; it fails to engage with the role of state finance, the IDC, parastatals, macro-economic stimulus, competition policy, regional development and industrialisation etc. in promoting a vibrant manufacturing sector. The only role accorded to the state is in creating an environment which makes it easy to do business, to promote local procurement, and smoothing a volatile currency.
- **The finance sector:** the NDP gives a glowing account of the massive growth in the sector, and its generally sophisticated nature, but identifies the main challenge as extending banking and insurance services to ‘historically marginalised groups’. However, the Plan fails to address the core issues relating to this sector, in particular the problems of profiteering, abuse of monopoly power, rampant speculation, lack of effective regulation etc etc., nor to situate these issues in some of the problems, and policy options, which have emerged internationally.

It fails to recognise that the financial sectors massive expansion, as a result of financialisation of the SA economy, has come at the expense of the productive sector of the economy, and therefore broader employment; and that it is a relatively small employer in relation to its huge size in the economy (12 % of GDP, while it only employs 3 % of the employed). Analysis of the impact of financialisation and speculation on the economy is well established in IPAP and the NGP, and there is widespread recognition that much more effective regulation of the financial sector is required. None of this is reflected in the NDP. Proposals have been made by the Alliance on the need for state regulation of the sector, including: requirements for extension of credit to the productive sector; interventions to address monopoly power; the need for introduction of prescribed asset requirements to channel financial resources into productive and socially beneficial investment; the need for the creation of a state bank, and far more effective use of the Post Office bank. These issues are not addressed.

#### 4. *The NDP’s Export driven strategy*

If the NDP’s employment strategy is dominated by the focus on SMME’s and services, its economic strategy is export-driven, with exports being regarded as the main catalyst of growth. Economic strategies which are dominated by a focus on exports are associated with neo-liberal growth models. Gear’s export-led growth strategy specifically aimed to expose the country to the cold winds of competition, and cheapen the relative cost of labour (unit labour costs) and production. It accepted that large sectors of the economy were uncompetitive, and that cheap imports, through the liberalisation of tariffs and trade, and restrictive macro-economic policies, would lower the overall cost structure of the economy. Exports would tend to concentrate on the ‘traditional strengths’ of the country, in our case raw materials, as well as certain niche

products. Broad-based industrialisation in this model was not a realistic option, because we were regarded as ‘uncompetitive’ on export markets, and production for the domestic market not a serious element of the economic growth strategy. While not explicitly stating its strategy in these terms, the thrust and logic of the NDP approach is broadly consistent with this approach.

So, the issue is what the role of exports should be in the overall economic strategy of a country? The new growth path needs to respond to the challenge to realign, and balance the elements of exports, imports, and production for the domestic market, to advance a diversified industrialisation strategy which raises standards of living, creates decent work, and breaks the historical dependence on the export of commodities, and import of manufactured goods. Greater balance in production also reduces dependence on foreign financing of our deficits, and the disruptive impact of speculative flows on our economy.

Therefore COSATU’s proposals for a new growth path, and IPAP and NGP, *to some extent*<sup>11</sup>, seeks to massively ramp up production for the domestic and regional market; diversify production of capital and intermediate goods (e.g. machinery and equipment), as well as consumer goods, to reduce dependence on imports, and industrialise; leverage the states infrastructure programme to promote domestic industry; deter imports of luxuries; and put in place macro-economic policies, and redistributive measures, to stimulate employment, and expand the domestic market by raising living standards and reducing inequality. It aims to diversify exports, ensuring a greater range of products along the value chain, including beneficiation of our raw materials, and capturing resource rents from our mineral exports, as well as targeting key developing countries for expanded trade. This approach however threatens powerful groups, domestically and internationally, who have a vested interest in entrenching the current growth path.

We can call this the *balanced strategy* of realigning exports, to subsume them to our overall development strategy, rather than subsuming our economic growth path to a one sided export-driven paradigm. The NDP however fails to embrace this approach. The internal focus tends to be more on the development of services. The NDP defers the production of capital and intermediate goods to a later phase of the Plan. It is also sceptical about expanding export of manufactured goods: “It is often presumed that substantial employment might be created through trade in light manufactured goods. However, South Africa can only compete in labour-intensive activities on the basis of niche products, processes and know-how.” p 127

One section refers to promoting “domestically oriented industries” p 129. However when you dig deeper, it becomes apparent that the Plan is not talking about industry *per se*, but largely about *services and small scale agriculture*: “Most new employment will arise in domestically oriented activities, where global competition is less intense... Examples include housing construction, retail, personal services such as hairdressing or cleaning, and business services such as office cleaning or repair.” p128

The viability of a strategy in the current global economic climate, which hinges on dramatically increasing exports, as the NDP proposes, is seriously open to question<sup>12</sup>. This is

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<sup>11</sup> Although an insufficiently coherent vision on this in the NGP is one of our criticisms of the document

<sup>12</sup> Although we don’t necessarily agree with all his arguments Philippe Burger, a UOFS Professor in economics also comes to the conclusion that the export-driven strategy of the NDP is unrealistic, and unlikely to materialise in its current form– P Burger “*The NDP and exports as a catalyst to generate growth: Can it work?*”  
<http://www.econ3x3.org/article/national-development-plan-and-exports-catalyst-generate-employment-growth-can-it-work>



one of the reasons countries like Brazil, and more recently even China, have shifted their focus to expanding the domestic market, and raising the standard of living of their people, as a basis for the expansion of industry and employment. The NDP however does not contain a coherent strategy to diversify exports, or develop the domestic market, as the basis for broad based industrialisation. Its acceptance of high levels of inequality, and dependence on the creation of mainly low wage employment, will continue to act as a fetter on domestic demand.

## 5. *The NDP on Regional development*

The NDP proposals on regional development seem to suggest it will be private sector led. It is more likely to reinforce the Nepad model of regional integration, which aims to align African countries to conservative economic parameters, around a neo-liberal model of competitiveness; than the Latin American model of autonomous regional development, solidarity between peoples etc. Chapter 7 on international relations discusses African regional integration in more detail. It doesn't reflect on proposals in IPAP and the NGP on industrialisation of the continent and the implications of proposals for alternative financial institutions such as the Bank of the South.

The NDP also seems to suggest that South Africa should shift certain sectors (such as clothing?) to low wage areas in the region, rather than articulating a strategy to industrialise the region on a different basis. P130 states that South Africa needs to “fulfil a more active and integrating role within the region. This may entail shifting activities that cannot be undertaken competitively in South Africa to lower-cost environments.”

The NDP proposes the very modest target of 20% for intra-African trade by 2030, the figure in the EU currently being something like 80%.

# II Macro issues in the NDP relating to economic and social transformation

## 1. *Role of the state and macroeconomic policy*

In the wake of the financial crisis, and policy shifts around the world the NDP proposes a shockingly orthodox macroeconomic vision. The NDP reveals the old Gear paradigm of macro-economic stability, and fiscal restraint, within liberalised financial markets. The focus on ‘spending efficiency’ is code for fiscal restraint; focus on ‘investment vs consumption’ spending is code for reducing spending on salaries and grants etc. There is no talk of a systematic programme of macroeconomic stimulus to respond to current global conditions. In fact it supports the current line in government and the ANC of the need for some monetary policy easing, combined with more fiscal restraint. p137

In articulating support for the floating exchange rate, the NDP makes it clear that it is not prepared to contemplate intervention in the financial markets, capital controls etc, but only to consider measures to combat volatility of the currency. As part of this, it proposes not only buying of foreign currency, but also a budget surplus.

The notion that the “balance in expenditure between consumption and investment will be key to delivering higher growth and employment” (p115) –is the orthodox approach aimed at reducing public spending on the poor and on public servants. President Lula told the CEC that he banned any talk of this distinction in his Cabinet, on the basis that he refused to accept that spending on the poor could be regarded as wasteful consumption expenditure, and that it was the most important investment a society could make.

What type of consumption spending is the NDP trying to reduce, if combating poverty and inequality is a central objective? More broadly in society, in terms of state as well as private spending, we need to promote higher living standards, and therefore increased consumption (of domestically produced goods) as a deliberate element of the new growth path. We should however be using taxes on luxury imports to discourage luxury consumption, which is currently a massive component of imports.

Despite the NDP's concern about the need for greater investment in society it gives no role to the state in directing investment. There is nothing about prescribed assets to direct investment by the financial sector into the productive sector, or the use of taxation to penalise speculation, and to reward real economy investment etc

The plan also makes it clear, albeit in code, that the state should have a minimal role in the productive sector, yet again tying the hands of the state in its ability to intervene to transform the structure of the economy –see p155.

The NDP proposes an approach to DFI's, and presumably SOE's as well, which suggests that state economic entities should continue to pursue the approach of commercialisation, and business as usual, with a technocratic emphasis on efficiency and balance sheets– P138

The Plan also sends a mixed message on local procurement, which is official government policy, and subject of a painstakingly negotiated accord: “efforts to stimulate local procurement *should not reinforce higher costs for the public sector and business because this will undermine growth and job creation.*” But then in apparent contradiction to this, the NDP makes a good proposal, suggesting that “*Mandatory targets for socioeconomic development and job creation for all tenders above R10 million should be introduced*” p140.

The section on “strengthening the capacity for government to implement its economic policy” (p120) is very weak. The general formulations in this section on ‘professionalising the public service’ and ‘oversight of public entities’ doesn’t address existing problems with state implementation, which include the lack of a coherent mandate across the state on economic development; the existence of powerful unaccountable centres in government, driving a conservative technocratic agenda etc.

It is therefore ironic in this context that the NDP attempts to reassert the conservative centre of economic policy co-ordination over which Treasury has gradually been losing control in recent years– see p154 which laments ‘fragmentation in economic policy’ and proposes that the Presidency, driving implementation of the NDP, should ensure centralised adherence to economic policy. Clearly this aims to subordinate Departments driving a different, more developmental policy mandate.

## 2. *NDP one-sided focus on economic growth*

Agreement has emerged over the last couple of years that economic growth *per se* is not the key issue, but rather the need for a new trajectory of growth, which addresses rather than reproduces our triple crisis (unemployment, poverty and inequalities). However the primary focus of the NDP is on economic growth, and the *rate of growth*, not on its composition, or the role of redistribution in determining the impact of growth. It contradicts the NGP, and a range of ANC economic policy resolutions on this, including the ETC resolution from Mangaung which states “structural problems *require structural solutions that transform the trajectory of economic growth, reindustrialise the South African economy and accelerate social development*”.

The Plan makes it clear that the target of 11 million jobs is dependent on almost tripling the size of GDP by 2030. But it then states “Many countries achieve an accelerated rate of growth

for, about eight years. Very few sustain it. Only 13 countries have grown at an average of 7 percent a year for 20 years. There is no consensus on what accelerates growth and how to sustain it.” (p124) How much more is this so in the context of a structural global crisis?

The NDP makes it clear that it regards South Africa’s allegedly very low levels of growth as the key economic problem. But the NDP analysis is problematic, because a number of middle income countries have had growth rates similar to ours, with very different outcomes. Brazil for example which has had an average growth rate in the last decade not all that significantly greater than SA<sup>13</sup>, have made huge strides in addressing unemployment, poverty and inequality, not primarily because of their *rates of growth*, but primarily because of the *composition* of their growth. Brazil e.g. created over a million jobs in 2009, despite a negative growth rate in the aftermath of the financial crisis. The NDP is unable to engage with this reality, but rather sets targets for an average growth rate of 5.4 % between 2011 and 2030, as the main way of addressing the challenge of employment, although these targets could be unrealistic.

### 3. *The NDP on transforming the economic structure and BEE*

The NDP proposes cosmetic reforms to the economic structure, aimed at best to *deracialise ownership*, rather than transforming the structure of the economy. Monopolies e.g. are only seen as a problem to the extent that they distort the market, and block black ownership. Despite, its massive emphasis on raising the ‘competitiveness’ of the South African economy, amazingly the entire NDP makes only one reference to competition policy (p115)<sup>14</sup>, and only one reference to the competition commission – under health.

The Plan focuses all its proposals for greater competition in *areas where State Owned Enterprises operate*– in Chapter 4 on infrastructure, which has numerous proposals to increase competition. In other words its focus is on introducing private sector competition where there is state ownership; and has a blind spot when it comes to acting against *monopoly ownership and control* in the private sector.

The NDPs solution to problems of concentrated ownership lies in economic growth and new opportunities, which will ultimately see deracialisation of the economy: “A rapidly growing economy that is diversifying into new sectors will open up opportunities for black-owned firms and smaller businesses, promoting inclusive growth.”<sup>15</sup> This is faith in market forces at its best! And no different to the DA’s “equal opportunities” dogma.

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13 From 2003–2011 Brazil had an average rate of growth of 4, 4 % (g20 country policy brief, September 2011). Despite these moderate levels of growth, nowhere near the levels of China and India, it created 17 million formal jobs between 2003 and 2012.

14 It only says that “government must encourage vigorous competition and impose it through competition laws.” But it makes no assessment of the existing environment, or proposals to make these effective.

15 At p 114 it reinforces this perspective: “The long-term solution to skewed ownership and control is to grow the economy rapidly and focus on spreading opportunities for black people as it grows. Improving standards of education; better support for entrepreneurs; and a focus on career mobility, workplace training and financial inclusion are ways to deal with these structural weaknesses. Government procurement, licensing and other forms of economic rents should help reduce racial patterns of ownership of wealth and income.”

Despite criticisms of the way in which BEE has functioned, the NDP continues to pin its hopes on a reformed BEE strategy as the primary tool to address the inherited structure of the economy– see pp 468–9. Positively, the NDP does call for promotion of social ownership by “Facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises.” (p466) But the Plan gives no detail or substance, and creates the impression that it is ‘box-ticking’ to raise issues which are important to workers, rather than being seriously committed to their realisation.

### III NDP Proposals for a social compact for labour market transformation

#### 1. NPC approach to the labour market challenge

##### Schizophrenia in the NDP

The document acknowledges huge inequalities in the labour market, concluding that with high dependency ratios in low-income households, ‘*the majority of working people live near or below the poverty line*’. The Plan states that: “In 2010, the median income from work was R2 800 per month overall, and R3 683 per month in the non-agricultural formal sector. The bottom 25 percent of workers averaged R1 500 per month, the top 25 percent R6 500, and the top 5 percent R17 000. Within the top 5 percent, there is significant upward variation. The variation by race and gender is substantial. Average earnings for women are 25–50 percent less than for men. In the bottom 50 percent of earners, the average earnings of African workers is one-quarter to one-fifth that of their white counterparts<sup>16</sup>.” (p132)

But this encouraging acknowledgement of the scale of the problem is then contradicted by the proposals which are made, which would actually intensify the inequalities the Plan speaks of, if they are implemented.

The Plan argues, based on alleged international experience (not specified) that wage improvement, and employment, will only be generated **after economic growth accelerates**. In South Africa this would require low youth or new entrant wages first, followed at some unspecified later point by wage improvements– (p126) The NDP suggests that the scale of unemployment requires a trade off, with young workers accepting lower wages, at least until 2020 – (p132)

The NPC argues that “*Uncompetitive labour markets* keep new entrants out and skew the economy towards high skills and high productivity sectors.” (p111) But they don’t clarify what evidence they have that low-skilled labour markets are uncompetitive, and how this impacts on employment of low skilled workers. High skill areas are precisely where a shortage of workers, and lack of competition, pushes up wages and salaries. At the bottom end the opposite is true. NPC claims of a mechanical link between wages and employment levels are contradicted by the evidence– see below.

The NDP makes the rather strange statement on p110 that “Profits are shared and then *consumed by both existing owners of capital and existing workers*.” This ‘sharing’ simply

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<sup>16</sup> The figures contained here are packaged incorrectly, as they should indicate that, because these are median figures, the low earners are earning *below* a certain amount, and the top earners are earning *above* a certain amount. These figures should not be presented as *averages*, as they are in the NDP.

never happened in the last two decades, and workers share of national income has consistently declined since the early 1990s, while profits increased as a share of income. Yet there is no evidence that those increased profits were reinvested in job creation.

## 2. *What does the NPC actually propose on the labour market?*

The NPC argues that by reducing the entry level wage and introducing the youth wage subsidy, together with measures which make labour laws more flexible, employers will be more prepared to employ workers, particularly first time workers.

Because of the resistance of the labour movement to the introduction of such measures, and the rejection of this approach by the ANC itself since the 2005 NGC, the Plan tries to soften these proposals by consistently arguing that existing workers won't be affected –see (p133). Further it states that “**Employers will have to commit to higher rates of investment and labour absorption**, and equitable sharing of the benefits of higher growth and productivity.”(p133)

However the Plan is forced to concede that this may be wishful thinking, and admits that workers “have good reason to be suspicious... profit margins are already very high in South Africa, even in the manufacturing sector. .. *low profits may not actually be the reason for low levels of investment*... Given deep inequalities, workers do not see why they should accept wage restraint. This concern can only be overcome if there is a clear return in terms of employment creation and growing equality across the economy.” (p476) Nevertheless it insists that labour “has to recognise that some wage moderation is required and efforts to raise productivity are essential.”(p477)

Thirdly, the NPC proposes that real **wage growth will have to be linked to productivity growth** – “Raising economy-wide and intra-firm productivity will help achieve rising real wages and expanding employment.” (p132) But the NDP fails to explain why, given that productivity growth has exceeded wage growth over many years, this result has not materialised. The CSID<sup>17</sup> reinforces this point, arguing that the social compact of below productivity wage increases, which the NPC calls for, has *de facto* been in effect in SA and has failed: low-skilled workers median wages have fallen since 1997, but jobs for the low-skilled have *shrunk* since 1993 by 770 000; but 2.5 million additional jobs have been created for more educated workers. This completely contradicts the NPC analysis.

Fourthly, emphasis by the NDP on **reducing the allegedly high cost of doing business** in South Africa (contrary to various international surveys) also seems to suggest that there would be more business activity, and more jobs if the ‘cost of doing business’ was lower, and profits were higher. But a distinction needs to be made between legitimate concerns, such as unreasonably high input prices, steel, electricity, transport etc; and those costs which business needs to bear if they want to operate. There is also a thin line between legitimately lowering these costs to business, and the *Laissez faire* RIA approach of deregulating business, so that it is not “burdened” by environmental, labour, tax and other social obligations.

## 3. *NDP on a Social accord - entrenching inequality dual labour markets and low wages*

Based on the above analysis and recommendations, the Plan proposes a **social accord**, the heart of which is reduction of overall wage levels as a share of national income–see p476. The NDP calls on labour to make sacrifices – ‘compromises and trade-offs’– but it is not clear what actual sacrifice it expects of business. In return for labour market flexibility and lower wages,

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17 Ilan Strauss, *Wages and productivity in post-apartheid South Africa*, draft CSID working paper January 2013

capital is asked to invest more– which is hardly a sacrifice, since they are being asked in effect whether they are prepared to make higher profits.

It enjoins leaders of constituencies to motivate for the necessary compromises “Leaders must be able to rally constituencies around long-term goals, recognising that benefits may be unevenly distributed and take time to realise” (p121) This in requires us to persuade workers to accept continued high levels of inequality, and the youth to accept employment under worse conditions, in the hope that benefits will materialise later.

The Plan takes a swipe at existing social dialogue, and goes so far as to imply that in order to make progress, Nedlac and other institutions may need to be displaced: see (p477)

The NDP concluding chapter ends on a rather strange note, because it enumerates a host of reasons why the social compact would probably not materialise. But in effect it is calling on government to go ahead and implement some of the measures unilaterally, which would have constituted core elements of the proposed compact.

It is clear that the social compact proposal in the NDP will never fly. But it would be a mistake for the labour movement to ignore the substance of what is proposed, as the NDP proposes to implement it unilaterally. It must be exposed for what it is –an anti-worker agenda –which would take us back to the dark days of the apartheid cheap labour regime.

#### 4. NDP on Public service wages and bargaining

A major thrust of the report, linked to the macroeconomic stance of fiscal discipline, and cutback in consumption spending by the state, focuses on the allegedly growing and unsustainable burden that public sector wages are placing on the state. See (p152) and (p133)

However, what the plan doesn't reveal is that *the share of public service remuneration in total expenditure declined* from 49 % in 1994 to 34 % in 2008 (but increased to 37 % in 2011). From a long-term perspective, the increase is therefore not as huge as it is made out to be, and certainly not great enough to threaten fiscal stability. The NDP also doesn't refer to the President's commitment to set up a special commission on improving wages of public servants, particularly teachers.

The other 2 issues raised by the NDP on the public sector are also ill-informed:

- It suggests that the public sector is destabilised by strike action, and calls for a change in terms of the definition of essential services. However, there have been few extended strikes in the public service, and particularly few in the essential services (i.e. health and policing). Further, the definition of essential services is clear. The issue is the need for minimum service level agreements.
- Secondly, it calls for restructuring of public sector bargaining, recommending that: “the public service bargaining council be reformed, and that the chamber be broken into various separate chambers, based on the occupations and skills levels in the public service.” (p133) But there are sectoral bargaining councils already! The PSCBC only negotiates the overall pay scale, and grading is done at the sectoral level.

Therefore 3 major proposals on public sector labour reform raised by the NDP, are all based on faulty assumptions. This is a shoddy basis on which to construct a national long term plan.

#### 5. NDP Proposals on labour market reforms

The Plan makes a number of valid observations about labour market conditions, including the high cost of living for workers, high levels of inequality, distance workers have to travel to work, or seek work etc. and make some apparently constructive proposals to strengthen labour

market institutions. But these are at the margins of the recommendations, and aim to camouflage the core proposals, which are a direct attack on workers and unions.

Much attention has focused on the youth wage subsidy. But an even more radical, though related, proposal is to lower all entry level wages, based on the assertion that ‘entry level wages’ in South Africa are too high, despite the evidence in the plan itself that most workers ‘live near or below the poverty line’.

Under the heading ‘labour market regulation’ on p 134 the NDP proposes a series of measures, the core of which are aimed at undermining protection of workers by *deregulating* the labour market, and defending labour broking (by regulating it). These include 4 major areas:

- An approach to handling probationary periods that “reflects the intention of probation”
- An approach that “simplifies dismissal procedures for poor performance or misconduct”
- Reducing labour regulation for small business
- An “effective approach to regulating temporary employment services”

The proposals for the youth wage subsidy, plus the first 3 areas above, are a recycling of measures which Treasury has been trying to introduce for years, aimed at entrenching dual labour markets and breaking the power of unions.

These attacks on workers are then ‘softened’ by proposals which may be genuinely described as improving regulation, dealing with issues such as the CCM A, health and safety, monitoring minimum wages etc.

On **probation**, it is proposed that “ordinary unfair dismissal protections should not apply to employees on probation, up to a limit of six months of service.” (p 134) In other words employers would have license to fire workers on probation.

On **dismissals** for misconduct or poor performance, the Commission proposes that any appeal or reversal of a dismissal should be ruled on substantive and not procedural grounds.  
p135

On reducing labour regulation for **small business**, the NDP fudges exactly what it is proposing, arguing that it is not calling for *complete exemption* for small business as this may act as a ‘perverse incentive for a race to the bottom’ (!). They state “To reduce the regulatory burden on small- and medium-sized enterprises, we recommend that the Code of Good Practice clearly lay out procedures appropriate to small business.” But the NDP doesn’t say what the ‘procedures appropriate to small business’ should be.

The issue of **labour brokers** is dealt with pp 135–6 under the bland heading of ‘temporary employment services’ (TES). There is no attempt to differentiate the different type of TES’s or to discuss the abuse perpetrated by labour brokers. Building on the proposals on probation, they propose that “Some basic provisions could ensure that after a worker had spent six months with a temporary employment service and/or client, the two would be jointly and severally liable for unfair dismissal and unfair labour practices.” As with probation, total lack of protection up to 6 months is a formula for exploitation, and doesn’t address the issue of abuses before the 6 month period is up, or the practice of ‘rotating’ labour broker workers every 6 months.

## Mistakes in the NDP

There are numerous statistical and factual errors in the NDP, as well as selective and inaccurate reporting of documents which the NDP draws on for its conclusions. Some of them may be the result of sloppy proof reading; with others it is unclear whether the error is 'logistical' or the result of misunderstanding of the data and statistics; and with others it is ignorance of the facts, or deliberate misrepresentation or selective interpretation of the information.

The responsibility for this presumably lies with the NPC secretariat who oversaw the drafting of the document. However, it is embarrassing for the Commissioners, many of whom are respected academics and intellectuals. The intention of raising these errors is not to nitpick. Some of the mistakes are of such a nature that they fundamentally throw into question the basis on which the NDP arrived at some key conclusions, and the policy options which have been chosen. Some of these have already been alluded to in the above analysis, but we below consolidate a partial list of some of the errors which we have identified in the economic chapter of the document.

### Statistical and factual errors

*A partial list of errors is contained below. Some other errors are raised in our analysis above*

**Employment scenarios:** on p121, table 3.1 incorrectly calculates the totals in the 3 employment scenarios, calculating the *employment total* in each scenario as 23, 76 million, even though the totals for the sub-sectors under each scenario differ substantially from each other

**Proportion of service in employment:** on p123 the document incorrectly cites the NDP table on sectoral employment percentages in the different scenarios, as stating that high level services in the diversified scenario increase from 15 % to 22 % when in fact they increase from **19%** to 22 %

The **GDP size** in 2030, of huge importance for the NDP, because it sets so much store by it, is never stipulated exactly, but is cited in different places as 'more than twice' the 2010 GDP, but also as 'nearly three times' the 2010 GDP. This is at best sloppy work, at worst the NDP hasn't worked out its projections scientifically.

**Labour force participation rate-** the chart on p118 gives the target for 2030 as **65% but as 61%** in the text.

**Poverty measure-** in the chart on p118, the NDP uses a poverty measure of R418 *per day vs R418 per month* in other places

**On the ratio of Public service wages: GDP** the NDP states that it is more than 12 %. But a Treasury spokesperson at the end of last year stated that it was 11, 5 % (BD 3/11/2012)

**Average wage figures-** on p132 the NDP cites various ' wage averages', but the figures are actually wage medians, or other cut-off points between deciles and quarters.

**Public sector bargaining councils-** on p133, the NDP calls for sectoral bargaining chambers in the bargaining councils, when these already exist.

**Finance and retail employment growth-** claimed levels of employment growth in the financial sector are not supported by data; and claimed employment of 5 million in retail, is more than double the actual total.



## Mangaung and the NDP:

The ANC's approach going into the Mangaung Conference was to give broad endorsement of the vision of the NDP, with the intention of engaging with the detail at a later point. While partly understandable, this was a problematic and risky strategy, which was bound to backfire, particularly if one understood the contradictions between the approach of the NDP, and the perspectives of the movement.

In our engagement with comrades in the ETC, we encountered the naïve belief that even if the NDP contradicted ANC policy, a general endorsement of the NDP vision would not create problems for the movement. The ETC resolution contains a broad endorsement of the Plan, which ultimately read as follows: "The National Development Plan is a living and dynamic document and articulates a vision which is broadly in line with our objective to create a national democratic society, and should be used as a common basis for this mobilisation. The ANC will continue to engage with the plan, conscious of the need to unite South Africans in action around a common vision and programme of change."

In some comrades' view, this left space for the ANC to align the Plan with ANC policy, or to ignore it, where there was a contradiction. However we raised concerns that the ANC was progressively tying itself to a document which would increasingly put the movement on the back foot, as it was forced to defend perspectives with which it disagreed.

Increasingly, the endorsement of the Plan as a broad *long term vision*, versus a *programme of government*, would become increasingly blurred. The Declaration of the Conference, deliberations of the NEC Lekgotla, and statements of government, have begun to clearly signal that the NDP is being embraced as a short, medium and long term programme of government, and not just a broad vision.

In his reply to the SONA debate on 21 February, the President stated that government was drafting a 2014–2019 Medium Term Strategic Framework *to align all policies with the NDP*. "The framework will be precise and clear in identifying indicators and targets to be achieved in the period 2014 to 2019. The first draft of the 2014–2019 NDP aligned framework should be ready for a thorough discussion at the July Cabinet Lekgotla."

Business has been quick to grasp the idea that the NDP should become the overarching programme and policy of government. For example Busa CEO stated in the run-up to SONA that "*departmental policies, such as the Industrial Policy Action Plan and the New Growth Path, needed to be aligned with the NDP's strategies. The NDP was a blueprint that could become a large-scale national implementation strategy*".

It is a concern about how quickly the ANC and elements of civil society appear to have endorsed the Plan, without any appreciation of the importance of committing to a document which sets out a road map for the country for the next 17 years, and certainly without having engaged with the detail of its proposals. We need to consider engaging with government on the basis of the COSATU Congress Resolution that the NDP needs to be realigned with the ANC and Alliance agreed position: Namely that the main content of this second phase of our transition must be a radical economic shift. This needs to be reflected in our national development plan.