What is possible

This Easter is not so much the season of goodwill as the season of scenarios. Several institutions have compiled different scenarios on what SA could look like some years into the future. These follow the National Plan which has now developed into a primary policy document of the ANC.

An interesting and very powerful contribution to this flood of let's-look-forward-publications has been made by the SA Reserve Bank. It is a unique contribution because it is firmly rooted in economic modelling, gives us quantative data and focuses wholly on the economy. (Read it here: http://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/5806/WP1303.pdf)

SARB's policy scenarios

The SARB Working Paper indicates what can happen to economic growth and employment if different policy choices were made.

It identifies five areas which are the big constraints holding back SA's economy. We can call them the Big Five and they are:

1. too low savings;
2. low skills and mismatch thereof;
3. poor quality of education;
4. too little competition in the product markets resulting in too high mark-ups; and
5. too high costs in the transport, logistics and communication network industries.

Savings and education, the first and third constraints, speak for themselves. The rest, in ordinary language, cover the labour market (2nd constraint); competition and margins in the private sector (4th constraint); and efficiencies in and investment by State Owned Enterprises (the 5th constraint).

I count at least 30 policy recommendations, many more if all the sub-recommendations are included. Together these can trump the Big Five and raise SA's economic growth rate from a "base case" of between 3% and 4% to between 7% and 8%. It is as useful and concise a "To Do List" on the SA economy as one can get.

Complement the National Development Plan

The SARB writers no-where refer to the National Development Plan, but their recommendations and ideas, as far as the economy goes, are perfectly in line with the Plan.

The value the SARB-model adds is that it has modelled the impact of key ideas in the National Plan and gives us concrete numbers on what the economic impact will be. It complements the NDP beautifully, whether the writers intended that or not.

But will it be implemented...?

Ok, so we have the broad framework of the NDP which has been accepted by the ANC, there is a concise To Do list of precisely what decisions need to be taken… will we actually do it?

It seems to me a first requirement is that either the President himself or the deputy-president must take ownership of the Plan and the SARB ideas and drive their implementation by various ministers and government agencies. No champion, no progress. The champion would need a few "Ps" – the **power** of the Presidency, a **personality** that can drive adherence, an understanding of **politics** and the **process** skills to bend peoples' ears.

Secondly, accept that it is a hard and complicated task. Take for example constraint 4, private sector competition and mark-ups. Free market supporters will recognise here the "creative destruction" of Joseph Schumpeter. But “creative destruction” is painful and not easy to effect. Those who face "destruction" of their margins do not think it is a "creative" idea. One cannot expect turkeys to vote for Christmas.

We have already seen that with ICASA’s battle to reduce the high inter-connection charges of cell phone companies and the Minister of Health’s equally hard battle in the private health industry. Creative destruction does not come easily.

The observation that competition in SA is too low and mark-ups too high was made by the Harvard Panel in the middle-2000s already. They recommended changes to the power of the Competition authorities to deal with the issue. Such legislation was passed a year or two ago and an investigation has recently been launched into aspects of private health care. From idea to first implementation took about 6 years. (The late Laurie Schlemmer used to say – of the old SA – that it took 7 years for an idea to progress from a proposal to implementation.)

But it is not just the private sector that will protect its margins. The same intensity of opposition will be encountered around State Owned Enterprises (the 5th constraint). SOEs are a source of patronage (always have been, always will be). Control of that patronage will not be easily surrendered. We have seen that with Eskom and the SABC amongst others. Tackling these one by one will require an exceptional champion.

Lastly we must accept that many of those 30 plus policy recommendations have long payback times, primarily education and skills development. Even if the correct decisions are made and implemented NOW, an improvement today will only render a result in 15 years' time.

So we have to be realistic – focus on what is likely, not on what we would like. We know exactly what to do, there is a clear and concise To Do-list, we now need to find a formidable champion with diverse skills to drive implementation. And with all those in place it will still be a hard slog to get things going.

The base case

So what happens if we just move along SARBs “base case”? No high road of 7%, but neither a recession with a contracting economy. No China then, but also no Japan. Just a stumbling forward at 3% to 4%. What will that look like?

Over a fourteen-year period - the time frame of the SARB modelling - the economy will grow by about 60%. More than 4 million jobs will be created. That means 4 million extra consumers in the economy and 4 million more taxpayers. A few million more kids would come through university, at least a million or more through FET colleges. The base of society will get stronger. On the other hand, unemployment will not come down, inequality probably also not, poverty will remain widespread, the potential of many citizens will still be wasted.

There is no question that the country will continue on its journey to modernity – but the pace would be the same as the last twenty years. There will be no acceleration. In short: no miracle, no apocalypse.

Spur for a bigger ambition

Perhaps Nigeria’s status as the new largest economy in Africa is just the kind of competition SA needs. Nigeria has published its re-calculated GDP numbers and its economy is now estimated to be

$509 billion dollars: almost double what it was estimated to be and a whopping 1/3 bigger than SA's GDP. (SA's economy is estimated at $372 bil on the same currency basis).

Perhaps this is the spur that will get SA to focus its attention. We will see after the election.