

What does the ANC mean by "radical economic transformation"?

The phrase "radical economic transformation" entered the ANC's lexicon with the release of its election manifesto. It was not defined or described and the precise context was: "The developmental mandate of state-owned enterprises, development finance institutions (DFIs) and other public agencies will be re-aligned to support *radical economic transformation*." (our emphasis). That was it.

Then Pres. Zuma made it a strong theme of his second inaugural address and from there on it has become a standard phrase in ANC and government communications.

Asked at a post-lekgotla news conference what precisely the phrase means, Secretary-general Gwede Mantashe answered, in effect, "Watch what we do and you will see what we mean ..."

It is now three months later and we have had a lot of declarations of what will be done: the president's State of the Nation speech, ministers' budget vote speeches to Parliament and, last week, government's 5-year Medium Term Strategic Framework 2014 – 2019. Putting all this together, we can begin to form an outline of what "radical economic transformation" means.

What is it?

The Medium Term Strategic Framework states that "radical economic transformation is about placing the economy on a qualitatively different path that ensures more rapid, sustainable growth, higher investment, increased employment, reduced inequality and deracialisation of the economy." (pg 6, main document).

In one of the appendices there is a throw-away sentence that really says it all: "Radical change must bring real benefits to working people and the poor across SA." (Appendix 4, pg 3).

So how to achieve that?

"Radical economic transformation" is listed as one of the two over-arching goals government has set itself for the next five years – the other one is improved service delivery (which is beyond this note).

Nine priorities make up "radical economic transformation". They are a mixture of "old" and "new" news. We summarise them briefly and then ask what we can learn from them.

Largely old news

First amongst the areas where it's mostly old news is **investment in infrastructure**. The philosophy is that the private sector drives growth and it should be "crowded in" (i.e. enticed or lured to invest more) through better infrastructure. The aim is to increase investment to 25% of GDP, from about 18%/19% now, stimulate growth and create employment. What is new is the acknowledgement that the private sector is critical. That is certainly a change from the mind-set that the state will do everything.

Central to infrastructure is energy supply where it is envisioned that 10 000 MW of new power capacity will be installed over 5 years and the reserve margin increased from 1% now to 8% by 2019 and 19% by 2030. The more the power constraint falls away, the more economic activity can be undertaken.

Infrastructure is of course about much more than energy and includes water, sanitation, ICT, roads and so on. Further specific goals are improving internet penetration from 33% in 2013 to 80% in 2019; and increasing tonnage transported by rail by some 60%. Efficiency of infrastructure also matters: there is a goal that ports should improve efficiency by some 25%.

A second old-news area is **macro-economic** policy. The current stance that fiscal policy must be counter-cyclical will be maintained, as will inflation targeting driven by an independent SARB. The minister of finance has already committed government to the expenditure levels set in the three-year budgets by his predecessor. The lower growth limits the minister's fiscal space and he may have to cut back a bit further. We will make an updated call on this when the mini-budget is presented in Oct/Nov.

A third area is "**public employment**" also known as "job opportunities" to distinguish them from real jobs in the normal economy. These are public works jobs – low-wage, low-skilled and low-productivity jobs. Even in the NDP there is an acceptance that "normal employment" will not be enough to deal with unemployment, hence the need for these job opportunities. The Mbeki administration started it in 2004 and by 2009 more than 1.5 million such "job opportunities" had been created. After 2009 the Zuma administration ramped it up and some 4.5 million jobs were created over five years. A further ramping up is in the offing with government committing itself to 6 million "job opportunities" over the coming five years. In the budget earlier this year R34 bil was set aside for this over three years.

Also not new, but with a new sense of urgency, is the priority of **workers' education and skills**. Two years pre-school education for all children, good quality basic education, two new universities and the establishment/expansion of Technical and Vocational Education and Training Colleges (TVET) are some of the important goals. The recommendations on improvements to basic education released recently by Minister Angie Motshekga fit into this priority.

Also well-known is the push to create **more opportunities for historically excluded and vulnerable groups**, particularly women and youth; and a push for more Black industrialists. The new employment equity requirements would fall under this priority. The underlying thrust is towards deracialising the economy.

Linked to deracialisation are **spatial imbalances**, which refer to land reform and rural development and more integration in urban areas.

The old "homelands" are areas with dense populations and very high unemployment. Rural infrastructure and service centres should be improved; more people are to be employed in agriculture (a goal is set of one million jobs in agriculture); and another 3.2 mil ha of land should be transferred to previously disadvantaged individuals. That is equal to 80% of what has been transferred so far.

In urban areas the challenge is to overcome fragmented residential settlements and underdeveloped business areas in previous Black areas.

None of this is really new, but the NDP has a very powerful analysis of spatial issues and that could explain the change in terminology around land. Ironically, "spatial imbalances" sounds much less radical than "land redistribution".

Some new news

There are high hopes that the new **Small Business** ministry will help increase the number of small businesses and so enable many more people to enter the economy. Linked to this is a new priority to reduce the regulatory burden on companies. It is not entirely new, as steps to this end were already taken in the last Parliament, but there is certainly an urgency and new focus. Capacity is being created in the Presidency to do impact assessments on all new and existing legislation and regulations. Small business has moved up the political priority list. It now remains to be seen what impact the new minister can have.

Definitely new is the emphasis on "**workplace conflict**". This is a post-platinum strike development and, perversely, credit must go to AMCU. Several changes could be introduced: an amendment to labour laws to make a strike ballot obligatory before strikes can commence; a change to the majoritarianism principle so that minority unions can also be heard; and measures to combat inequality. Most interesting is to observe how Government sees the conflict: on the one hand it sees deficiencies in labour law, which need to be rectified; on the other hand it sees inequality as a major driver of industrial unrest and wants to explore ways to minimise that. The investigation into a possible national minimum wage fits into this category.

A third newish area refers to **industrial policy** and includes minerals beneficiation. The idea is to grow the "productive sectors", code word for manufacturing and mining. Here the selective use of tariffs (e.g. recent protection for local chicken industry); reserving 75% of state procurement for local suppliers; sharpening the Competition Act to combat all forms of cartel and price collusion; designating certain minerals as strategic to support local industrial growth (platinum for jewellery or fuel cells; coal for power generation; and iron ore for downstream steel production) are all critical building blocks.

Strictly speaking these ideas are not new,. However, my sense is that government is now more serious about them than ever before.

What is missing

Conspicuous by its absence is pressure on **mining** companies to comply with mining charters and social plans and help resuscitate mining towns. This priority was highlighted by the President in his State of the Nation speech and one certainly got the impression mining was in for the high jump. Despite its absence from the 5-year Strategy I still think the "high jump" scenario is on.

Also missing is the central driver that is going to co-ordinate all this and make sure it gets implemented. It is interesting that Minister Jeff Radebe has been appointed chairman of every single inter-ministerial committee, except the one on service delivery where Minister Pravin Gordhan is the chair. Minister Radebe looks like a kind of Prime Minister responsible for government co-ordination. He clearly has the confidence of the President – we will have to see what that means for implementation.

So What?

- Putting all of the above together it is clear that "radical economic transformation" refers more to a desire to radically change the realities of SA, than a desire to introduce radical left- (or right-) wing policies. There is no Hugo Chavez- or Venezuela-type approach here, nor a Thatcher-like one.
- One has the suspicion that rather than policy, this is rhetoric, which was decided on after the election result and the emergence of the EFF – SA's first real party of the left. The fact that

the phrase is scarcely used in the election manifesto and then used overwhelmingly in the inaugural and subsequent communications certainly reinforces that suspicion. Talking left and walking right is an old tactic.

- The issue is therefore not so much radical policies, but rather that old canard: implementation.
- The implementation challenge is very clear if one considers growth projections. Growth this year is currently forecast at 1.7%, so how realistic is it to envision 5% over the next five years?
- On the other hand, with clear goals and targets in place, one just hammers away and a process of what the economists call “an accumulation of capabilities” takes place. Starting and trying are as important as getting it all right. It simply takes a long time.
- All this is grist to my mill of a “muddle-through scenario”, often discussed in these pages. Radicalism, no; muddle through, yes.
- Nevertheless, if half of these goals can be met there will indeed be transformation; and if they are mostly met over a period of say ten years there would indeed have been “radical economic transformation”.