Assessing the New Growth Path: Framework for Change?*

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New Growth Path for Old?

There is much to commend the New Growth Framework, NGP, in terms of its objectives. First and foremost is to acknowledge the need for a break with the old growth path although there remain doubts to some extent over how the old is conceived and how the new breaks with it both in trajectory and driving force.

Second is the emphasis on addressing decent work, poverty, labour absorption, a social wage and a greener economy. It is far from clear, however, that in its goals the NGP represent either much of a break with the old growth path (as opposed to its achievements) or offer more than the buzzwords and fuzzwords of developmental discourse.[1] After all, the NGP could hardly explicitly seek to worsen working conditions, poverty, labour absorption, the social wage and the environment, and hope to get away with it in contemporary South Africa! Significantly, where the NGP is explicit in projecting pain rather than gain is in its clear intention of moderating wage settlements of those earning between R3000 and R20000 per month, p. 26. The presumption is that this will allow other objectives to be met but how (by what mechanisms) and how much (employment, social wage, poverty alleviation, etc) is left somewhat vague although it is advised, "it requires some sacrifice from union members … the New Growth Path must ensure that economic and social policies demonstrably reward any sacrifice by members with real gains for the working class as a whole", p. 29. How is this to be done let alone demonstrated?

Unfortunately, this stance exhibits some considerable affinity with the old growth path, at least as far as the pain of union members is concerned, even if sugared by the promise of gain for others. The implication is that too high levels of (higher) wages are a significant burden on the economy in terms of employment generated and space for fiscal expansion. It is precisely such analytics that the NGP might have been expected to abandon without thereby degenerating into fiscal irresponsibility, although the latter will be charged whatever minor or major breaks are proposed from the dictates of sound finance and reliance on market forces. To put this another way, whenever there is unemployment of whatever level, there will be those who argue it can be ameliorated by reducing labour costs. To whatever degree this is true, and it is clearly affected by a myriad of other, arguably much more important macro and micro determinants of employment, it does not begin to get to grips with the massive unemployment characteristic of South Africa that does not derive from the wage levels of unionised and better paid workers. That this assumes some prominence in the NGP might be a compromise aimed at reassuring and incorporating business into social partnership. But as the Framework itself observes that the country's profit share is high and has been increasing, p. 3, this would hardly seem to be necessary, effective or, to put it bluntly as the main effect of wage restraint, desirable.

Third, welcome within the Framework is the identification of some key features of the old growth path, not least dependence on the minerals value chain (but without mentioning the minerals-energy complex, see below), the misuse of commodity-based revenues, the undue dependence on short-run capital inflows, backlogs and bottlenecks in infrastructure, and monopoly pricing in key sectors. Addressing why these should have occurred and, correspondingly, how they will be remedied, remain weak other than through guilt by association with the past as opposed to the promise of the future. Indicatively, we are told that 150,000 new security guards emerged between 2002 and 2008 (one in fourteen of new jobs); that the top 10% of households capture 40% of income, p. 5; and that the share of profits rose from 40% to 45% between 1994 and 2009 (with a corresponding fall in share of wages). Good points but so what? Analytical leverage in embarking upon a new growth path requires a close and convincing account of what factors have given rise to such negative outcomes, and are measures prospectively in hand sufficient to tackle them in the future.

Nor is this simply a matter of the right and new policies but of a shift in the balance of economic, political and ideological power, and its appropriate representation through policy. This is explicitly targeted, if not in these terms, by the NGP, and is the context within which to locate the NGP's appeal to social dialogue and partnership, over and above its intent to moderate higher wage increases. The Framework recognises that its success depends upon participation with, no doubt, an eye to the resentment of the previously imposed and non-negotiable GEAR, "In South Africa, no technocratic solution – if it existed - could be imposed from above. We must develop this New Growth Path in conditions of active, noisy democracy", p. 30.[2] Yet, it is precisely such "noisy democracy" that has characterised the old growth path, and the Framework offers little or no explanation for why this has failed to deliver in the past. The one exception, to belabour the point, is to suggest the need to moderate increases of better-paid workers. Whilst some token sacrifices are also required of capital and their managers, this reworking of social dialogue and partnership, as with unemployment, is at most token and fails to confront how it will depart the old for the new growth path in terms of shifts in the balance of power and its representation in policy to achieve stated goals.

Indeed, the NGP might have acknowledged that it is labour and progressive noise in opposition to the old growth path that has allowed the new to emerge. But of equal significance to noisy democracy is the silent, undemocratic, even illegal manoeuvres of capital to which I now turn.

From Tradeoffs to Capital Flight

Despite then, the NGP's partial virtues and strengths, there are arguably significantly deeper weaknesses and even inconsistencies in the Framework.[3] The most immediate and striking is the starting point that, "Achieving the New Growth Path requires that we address key tradeoffs", p. 2, emphasis added. These tradeoffs are then listed as between "present consumption and future growth", across "infrastructure, skills and other interventions", between high benefits and risks,[4] a strong rand and competitiveness, and "the present costs and future benefits of a green economy".

Now tradeoffs, or zero sum outcomes in other parlance, are only necessary when the economy is working at full capacity. This is evidently not the case in South Africa, as indeed is highlighted by the NGP's account and targeting of unemployment. Further, immediately before listing these putative tradeoffs, attention is drawn to the need to address inefficiencies and constraints, each of which has the potential to substitute positive for zero sum outcomes. Indeed, this might be thought, at least in principle, to be one of the first calls upon policy.

Of course, it is symbolic of Keynesianism that, in the context of mass (and for South Africa, also chronic) unemployment, attention to tradeoffs as opposed to trade-ups as it were, is liable to be self-defeating. Moreover, emphasis on tradeoffs is equally more deeply symbolic both of neoliberal policymaking in general and the old growth path(s) in particular, raising doubts over how seriously a break has been made (a theme that will recur here).

Further, the rhetoric of tradeoffs is also indicative of an unfortunate, if inconsistent, approach to labour as expendable if not expended. For the inspiration for the tradeoffs revolves around the availability of non-labour resources and how they are deployed – we have to have tradeoffs because we only have limited resources (other than labour). Here, though, there is one crucial oversight that has been so commonplace in practice, and yet overlooked to the point of almost absolute neglect, that it can only best be described as the elephant in the room. This is the issue of capital flight. It is and has been on an unprecedented scale, much of it totally illegal (and managed by large-scale corporations through transfer pricing – declaring value of exports from South Africa at a lower price than charged to importing countries).[5] Illegal capital flight was certainly extensive during the apartheid period but it has attained new and dramatic heights subsequently, with its exceeding 20% of GDP in its peak year, 2007.

Unfortunately, far from addressing this problem, the record of post-apartheid governments has been at best to turn a blind eye, and at worst to facilitate it, as illegal capital flight has increasingly been legalised with a programme of relaxation of exchange controls. Recent developments indicate that this syndrome of ignoring the elephant is at last being rectified, but only in the most perverse of ways. Government only a year ago announced its intention to grant an amnesty for illegal capital flight upon payment of a 10% penalty, as a step towards removing all exchange controls. This is akin to recognising the elephant in the room by tolerating its presence despite the enormous (policy) space it occupies or precludes. The South African Reserve Bank and the Treasury have been little short of scandalous in their failure to report upon and, one must suspect, pursue illegal capital flight, let alone take into account what impact it has had upon the economy. There has been little or no investigation of its incidence or the likely effect of the proposed amnesty (who would declare, and why, with an amnesty around the corner and no apparent investigation, and so on, and what about tax that has been failed to be paid). As far as these two lax guardians of sound finance and austerity are concerned, it is as if capital flight does not exist and, if it does, that it is best to work around it.[6]

In short, whilst the NGP calls for "Systemic changes to mobilise domestic investment around activities that can create sustainable employment", p. 1, it overlooks the single most important proximate factor that needs to be addressed in order to achieve this goal (as well as failing to offer any analysis why South Africa's long-term record is one of chronic underinvestment and how this will be remedied). Nor is this simply a matter of lost resources (that might be compared with the savings from moderating wage increases). For capital flight also squeezes the frontiers along which putative policy tradeoffs are made. And it is only when we get beyond its squeeze (and that of financialisation more generally, see below) that policies can be more fully engaged that not only mobilise investment but also in the appropriate activities. Thus, the tradeoff that the NGP should have targeted is between capital flight and the capacity for policy, not between policies with capital flight taken for granted or, it might be added, even condoned ….

Financialisation Meets the MEC

Now, neither the effects of capital flight outlined above nor their causes spring from nowhere, alongside the other challenges posed for the post-apartheid economy. This crucial, even decisive, and certainly symbolic, aspect of the South African economy is the product and interaction of both global and domestic forces. At the global level, as starkly revealed by the current crisis, the world economy has been subject to what has been termed "financialisation".[7] In brief, financialisation has involved: the phenomenal expansion of financial assets relative to real activity (by three times over the last thirty years); the proliferation of types of assets, from derivatives through to futures markets with a corresponding explosion of acronyms; the absolute and relative expansion of speculative as opposed to or at the expense of real investment; a shift in the balance of productive to financial imperatives within the private sector whether financial or not; increasing inequality in income arising out of weight of financial rewards; consumer-led booms based on credit; the penetration of finance into ever more areas of economic and social life such as pensions, education, health, and provision of economic and social infrastructure; the emergence of a neo-liberal culture of reliance upon markets and private capital and corresponding anti-statism despite the extent to which the rewards to private finance have in part derived from state finance itself.

However we understand financialisation, its consequences have been: reductions in overall levels and efficacy of real investment as financial instruments and activities expand at its expense even if excessive investment does take place in particular sectors at particular times (as with the dotcom bubble of a decade ago); prioritising shareholder value, or financial worth, over other economic and social values; pushing of policies towards conservatism and commercialisation in all respects; extending influence of finance more broadly, both directly and indirectly, over economic and social policy; placing more aspects of economic and social life at the risk of volatility from financial instability and, conversely, placing the economy and social life at risk of crisis from triggers within particular markets (as with the food and energy crises that preceded the financial crisis). Whilst, then, financialisation is a single word, it is attached to a wide variety of different forms and effects of finance even if with the USA and the UK to the fore and other economies, such as Greece, subject to the severest of adjustments.

To some degree, financialisation (not the old growth path) is the key to understanding the malaise of South African economy and society, once wedded to an understanding of it as historically and currently dominated by the minerals-energy complex. What is this MEC, recognised at most in a token fashion in the New Growth Path by reference to "Dependence on the minerals value chain [and] ... Weaknesses in the state's use of commodity-based revenue for economic diversification and skills development", p. 5? It is the specifically South African system of accumulation, that has been centred on core sectors around, but more wide-ranging than, mining and energy, evolving with a character and dynamic of its own that has shifted over time. Its history and consequences can be traced back to the emergence of mining in the 1870s through to the present day. In the interwar and immediate post-war period, core MEC sectors drove the economy, furnishing a surplus for the protection and growth and, ultimately, incorporation of Afrikaner capital. State corporations in electricity, steel, transport and so on, represented an accommodation across the economic power of the mining conglomerates and the political power of the Afrikaners, an uneasy compromise of evolving fractions of classes and their interests forged through both state and market. The apartheid labour systems were less an accommodation than a common bond across capitals and against labour. But the divisions between Afrikaner and mining capitals precluded a more general strategy of industrial diversification out of core MEC sectors, leading to a partial vacuum in intermediate and capital goods capability, a failure to accrue economies of scale and scope other than in core MEC sectors, and an inefficient consumer goods industry surviving by protection upon demand.

But, by the 1970s, Afrikaner and mining-related capital had been sufficiently integrated for a common economic strategy to be adopted, as had always been the case for labour systems. But, with the collapse of the post-war boom and the Bretton Woods system based on gold at $35 per ounce, and the sharp rise in oil and energy prices, a huge premium attached to both gold and energy. As a result, an industrial strategy for diversification was scarcely considered let alone adopted. Instead, the 1970s witnessed an extraordinary state-led expansion of gold and energy production. Into the 1980s, the crisis of apartheid also precluded a state and/or private strategy for industrial promotion. But, whilst the core MEC industries remained central to the economy, capital controls meant that profits generated internally that were not illegally transferred abroad, see below, were confined to accumulation within the South African economy itself. This gave rise both to further conglomeration across the economy but, first and foremost, to the expansion of a huge and sophisticated financial system as cause and consequence of the internationally confined, but domestically spread, reach of the South African conglomerates with Anglo-American in the lead.

The MEC is the system of accumulation that was inherited by post-apartheid South Africa. And it has survived more or less intact over the post-apartheid period. This is not to say it has remained unchanged, quite the opposite, just as it has experienced significant change in the past. Unfortunately, those changes have, however, reflected the extent to which South Africa is the exact opposite of a development state (see below) and has been driven further away from being so.[8] In particular, the South African economy over the post-apartheid period has been driven by what might be termed a backlog in financialisation and globalisation that was inherited from the apartheid period. These have dominated both the low pace of domestic accumulation and the form and composition taken by the restructuring of the domestic economy. Whilst the MEC core sectors have strengthened, the fastest growing sector in the economy over the last twenty years has been finance and related services, now taking as much as 20% of GDP, although 40% of the population benefit from no financial services at all.

Now according to the efficient market hypothesis (itself a form of tradeoff economics in the extreme), as far as those supporting financialisation are concerned, the role of financial markets is to provide for the efficient mobilisation and allocation of resources to investment. Has this been done by the South African financial system? Not at all, domestic levels of investment are running at half those generally acknowledged to be necessary for developmental state status. And where are all the resources going? Well, one answer has already been provided, they go into the financial sector itself. I exaggerate somewhat as, of course, some financial services are completely essential, like high security protection of the rewards and properties of the most unequal society in the world (150,000 new jobs after all). But, effectively, far from adding 20% to GDP, financial services are taking away a quarter of GDP and cheekily suggesting that by doing so they add the equivalent to GDP.[9] Across the world, three times as many financial assets are now required to serve one unit of GDP than thirty years ago. If this were true of any other input, such as energy, steel, or whatever, we would be outraged. But finance gets away with it. And, as already mentioned, the South African situation is even more serious and disturbing because this financialisation is not only associated, as elsewhere, with exaggerated rewards to those working within finance, and conducive to credit-based levels of consumption based on speculation in housing markets, it has been accompanied by the most extreme levels of illegal capital flight.[10]

As a component part of globalisation and financialisation, capital flight places the (macro)economy on the cusp of instability, and this has had to be accommodated in South Africa, and has even driven, macroeconomic policy to serve its needs. The Framework recognises this but in an elephantine way, p. 5:

> A persistent balance-of-trade deficit funded with short-term capital inflows (essentially foreign investment in equities and in 2009/10 increasingly in interest-bearing assets), attracted largely by interest rates that were high by international standards. In effect, the country borrowed abroad to sustain government spending, investment and household consumption which remained heavily biased toward the well off. Both investment and domestic savings remained below the levels required for sustained growth.

This is all true but misses the main point. Interest rates have in effect been held high, whether intended or not, in order that short-term capital inflows (a source of volatility) can compensate for long-term (illegal) outflows. And the exchange rate has been held at a high level with the effect of making capital outflows worth more in foreign currency to those who benefit from them, whilst making it ever more difficult to sustain both the exchange rate and competitive economic growth. Indeed, it is not the case that short-term inflows, "enabled the country to spend more than it earned", p. 4. It allowed it to send abroad what it earned although, of course, "the country" is a euphemism for a very few select companies and individuals.

This is of profound significance for the restructuring of domestic industry which has not been driven by the need to fill in the hollowed out industrial structure inherited from apartheid, with its limited capacity to build upon the MEC core strengths and diversify through capital and intermediate to more competitive and higher quality consumption goods. Rather the conglomerate structure has been dismantled to create sectoral monopolies whose profitability depends upon high prices and not productivity increase, the very antithesis of the much needed three-high economy – high investment, high productivity and high wages. Again, this is acknowledged, if only weakly, in pointing to "Continued economic concentration in key sectors, permitting rent-seeking at the expense of consumers and industrial development", p. 5. What has been, and remains, notably absent is the corresponding commitment to secure long-term finance for investment in labour-intensive domestic production to meet domestic consumption of basic needs, thereby creating jobs, alleviating unemployment and addressing the backlog of provision and inequality inherited from apartheid. Again, with token if significant exceptions, inequalities have strengthened post-apartheid.

Now it is against the accommodation of these various elephants in the room - financialisation, illegal capital flight, and the continuing imperatives of the MEC - that the hard tradeoffs highlighted by the Framework need to be assessed. For instance, it is claimed without further specification that, "Global economic turmoil has also opened up new policy space for developing economies to go beyond conventional policy prescriptions", p. 4. If so, itself indisputable if balancing some minor concessions in the rhetoric of the Washington institutions in deference to neoliberalism's tarnished reputation and worsening economic conditions, South Africa is certainly not seizing that new policy space just as it did not seize or even test the space that was previously available (rather than warmly embracing its confines). Moreover, Cabinet has already rejected the idea of taxing short-term capital inflows (let me remind you that these underpin long-term capital outflows).[11] As already indicated, the NGP proceeds oblivious to the proposed amnesty granted on capital flight and the corresponding intention to liberalise exchange controls completely.

<u>From China Syndrome …</u>

This is exactly the opposite of the way in which China, for example, has been so successful over the past few decades. Its economic development has been primarily based on rapidly expanding <u>domestic</u> markets. This has been accompanied by relatively rapid growth in labour productivity, contingent upon very high levels of investment and has given rise to increasing real wages and even the emergence of shortages for skilled labour. A full account of the processes involved is not necessary here but one to highlight is the staggering dependence of China upon banks for finance for industrial investment. It is proportionately roughly four times higher than for the United States, and at least double that of most other countries. This is, however, indicative of the <u>limited</u> extent of financialisation of the Chinese economy, since finance has derived primarily from state-owned banks that have been policy driven. Of course, this does not guarantee developmental success in the absence of other conditions but these are precisely what have been present in China where, nonetheless, development is fraught by the tensions associated with sustaining international competitiveness and domestic economic and social stability.

In short, though, the lessons to be learned from China for national developmentalism are, broadly and overgeneralising, in contemporary conditions, especially in the wake of the current crisis, that a corresponding positive role for the state depends upon: insulating the mobilisation and allocation of finance from financialisation in all of its forms (including illegal capital flight); the promotion of secure domestic provision of goods for domestic consumption especially as far as the meeting of basic needs and poverty alleviation are concerned; and a strong commitment to state provision of social and economic infrastructure attached to a “developmental welfare state”,[12] and targeted industrial (and other) strategies designed to expand employment and productivity in line with corresponding increases in wages.

Significantly, the Framework only mentions China as a source of cooperative opportunity. This is an important factor but one-sided. More specifically, as far as China might serve as an enabling factor in the promotion of desirable developments elsewhere including South Africa, its size and diversity give rise to a complex mix of complementary opportunities and sources of competition. Inevitably, these are variously spread across different countries, at different stages of development, across different sectors, technological capabilities and levels of value-added, and corresponding position within global value chains/networks. Across the literature more generally, the levels of uncertainty and unevenness involved is conducive to appeal to metaphor as China is variously understood as Engine, Conduit, or Steamroller as far as other economies are concerned, or is it a perpetrator of Flying Geese or of Sitting Ducks. Policy in South Africa will need to be much more extensive and refined if it is to escape its old growth path irrespective of its relations with China.

… To Developmental State

And lessons will have to be learned from comparative experience, not least from China itself. The Framework notably draws upon no comparative nor historical experience at all in identifying and justifying policies that might launch the NGP. The minor exception is the implicit, if token and obligatory, reference to South Africa as a developmental state with, presumably, some resonances with successes of the East Asian NICs and, possibly, beyond. There are, however, essentially only a couple of uses of the term. One is for it to coordinate and prioritise the state’s efforts, p. 6. The other suggests that its role is “to minimise costs for business” other than in making tradeoffs for greener economy and equity, p. 28. This comes within an entire subsection on the developmental state which otherwise adds little other than that all state agencies should pull together. But, in order not to give the wrong impression, it is emphasised that, “A developmental state is not simply hostage to market forces and vested interests. Through careful alliances, clear purpose and by leveraging its resource and regulatory capacity, it can align market outcomes with development needs”. In other words, remarkably and unnecessarily, the developmental state would appear to be precisely conceived as a hostage to market forces and vested interests but, with a bit of leverage, may be induced to do something else as well.

This is not the place to go into debate over the strengths and weaknesses of the developmental state paradigm itself, let alone whether South Africa comes anywhere near approaching conditions that might allow it to be defined as such – which it does not.[13] In the 1980s, the DSP successfully deployed the empirical experience of the East Asian NICs to display the profound weaknesses of the neo-liberal Washington Consensus dogma and the essential role played by state intervention to bring about latecomer, catch-up industrialisation. In doing so, amongst its other limitations, the DSP placed undue emphasis upon the relations between (industrial) capital and the state at the expense of the role of labour (as well as welfare, democracy and other aspects of development other than industrial performance). Over the past decade, following a loss of popularity around the turn of the millennium, the DSP has enjoyed something of a revival. But, in doing so, it has been both diluted and indiscriminately spread in its application. Almost anything that the state does can now be perceived to be developmental, and claims as such can be made equally readily.

Lest we forget, and both reflecting and contributing to this revival, discourse around the developmental state in South Africa was the result of a failed attempt of the Mbeki regime in its death throes to restore some credibility to its old growth path and failing political popularity and credibility. Inevitably, its adoption for the NGP could hardly be faithful to the earlier version associated with the East Asian NICs, of excluding labour, social dialogue, welfare and so on. And, as observed, the revived DSP readily allows for these to be added on in superficial and token ways. In effect, the NGP accepts the necessity of incorporating labour into its developmental state but, essentially, in order to ensure it is complicit with the sacrifices it will have to make (as opposed to them being imposed as is often supposed of the authoritarian East Asian NICs).

Twixt Politics and Policies

Thus, what is striking in the Framework's use of the developmental state is the shallowness in the politics of what is involved. The first reference to the developmental state is immediately followed by an appeal to "effective social dialogue that … facilitates the necessary tradeoffs and sacrifices", p. 6. It is complemented by four references to "social capital", including this as a "job driver". Once again, this is entirely without substance and serves more of a marker, intended or not, of worthy intentions rather than of addressing the evolving structures of power and privilege within South Africa. Having written two books ripping the notion of social capital to shreds, I can hardly be expected to be sympathetic to it, Fine (2001 and 2010c). Again, this is not the place to rehearse my concerns other than to observe that social capital has served to raise self-help from the individual to the level of the collective (thereby for collectives to be blamed for their own condition for not helping themselves), has never been shown to contribute to policymaking (other than as an ideological support to the predetermined), and has studiously ignored the "social capital" of the rich, privileged and powerful (those taking their capital out of the country whilst courting the complicity of a new black elite, the so-called bridging social capital of new and old wealth to which we should be paying much more critical attention than does the NGP).

In short, this is evidence of little or no determination to shift the politics from that of the old growth path, primarily relying upon private capital. For, mass unemployment in South Africa to the contrary, it is simply asserted that, "In a <u>mixed economy</u>, private business is a <u>core driver</u> of jobs and economic growth", p. 28, emphasis added. We clearly need a new core driver if this is the case. Significantly, the discourse around mixed economy immediately after the demise of apartheid was attached to a compromise with the private sector in which the role of the state would be expanded. What is now presumed to be the old growth path soon changed this. But both undue reliance upon, and misreading of, the South African private sector are retained by the NGP. For, whilst appeal is made to the participation and cooperation of the labour movement, it is always in terms of an accord in which it makes sacrifices even if "with real gains for the working class as a whole", p. 29. In this respect, there is an asymmetry relative to capital from which only limited sacrifice is called for although, in light of the severity of capital flight, its role is totally misjudged. For, even if it is accepted that "business has its weaknesses", this is because, for the NGP, it "has often been reactive and inwardly focussed". Indeed, "Too many business leaders have missed opportunities offered by the profound changes since 1994", p. 29. On the contrary, business leaders have been extraordinarily strong not weak, aggressive not reactive, outwardly not inwardly focused, and have taken full advantage of the opportunities offered since 1994 – to take capital out of the country, to a large extent illegally!

Now, interestingly, unlike unions who are to make sacrifices for the common good because of the presumed need for tradeoffs, the Framework indicts business for (falsely identified) weaknesses, missed opportunities, and so on, with the implicit presumption that it need not make sacrifices, merely improve its performance at nobody's expense but to everybody's benefit. An obvious question is why did business not take these beneficial opportunities in the first place, and credibility is beginning to be stretched as soon as we also throw in how much business has benefitted over the post-apartheid period in terms of profitability, etc. Moreover, irrespective of egalitarian reasons for redistribution of income and wealth, even the mis-targeted indictments of business by the Framework are sufficient to suggest that public ownership needs to be an essential component for rectifying these deficiencies. This is accepted for "public" provision, such as health, education and much social and economic infrastructure, but needs to be extended beyond this, especially as business does not simply fail to take opportunities but positively campaigns and organises to prevent, even to circumscribe, the state from doing so as is so evident from negotiations for the transition from apartheid onwards.

Significantly, though, despite its high profile in current debate, the option of extending public ownership is not seriously addressed in the Framework. This is not to suggest that nationalisation is an answer to all problems, or even the leading factor within policy. Rather, for each and every sector of the economy, assessment of policy must be accompanied by an equal assessment of why corresponding goals have not been delivered in the past and whether public ownership is necessary to overcome private business "weaknesses".[14]

Nor are they liable to be troubled by the demands placed upon them in return for the government's efforts to "moderate wage settlements", p. 26. In this, the government is unlikely to be able to succeed over the long term in its intention, although it will condition, that is weaken, the strength and determination with which the labour movement will be able to engage in collective bargaining. Where it will definitely not succeed, and there is little evidence that it has given any thought on how to achieve them, is in the goals to "moderate price increases" and "to cap pay and bonuses for senior managers and executives earning over R550 000 per year". To put it bluntly, if those earning this amount cannot find ways of getting around any (unspecified) mechanisms for imposing caps, they should not be in their jobs in the first place!

Now, as a framework, the NGP rarely addresses policy in detail. But after a short introduction as first section, and context setting as a second section, the third section, and the vast majority of the document, is dedicated to the New Growth Path itself.[15] As will be seen, it ranges far and wide but usually with a number of characteristics in common. First is the failure of the analyses and the proposals to draw in much way at all upon the peculiar circumstances of the South African economy, let alone those of a developing economy more generally seeking to undergo economic and social transformation. In short, irrespective of merits, with a few amendments in the wording, this document could be equally applicable to any other economy. Second, the merits of the discussion are few and far between and not simply for lack of attachment to the specificity of South Africa and its needs. For, it is not only the developmental state that appears as a buzzword in the NGP but a sack of others as well, with no acknowledgement of the critical thought and failed expectations to which they have been attached elsewhere in the world and, indeed, within South Africa itself. Third, this renders much of the discussion mundane, conservative, wrong, inconsistent or arbitrary and, most important of all, with little purchase on how there is a breach with the old growth path and with the economic, social, political and institutional conditions that sustained it.

The specification of the NGP does open with a short discussion on sequencing the transition to a new growth path across three phases – the short, medium and long term. These are more motivated by uncritical orthodox economic theory than empirical realities about what can be changed in certain time frames and with what priorities and, as such, are essentially arbitrary. The casual appeal to orthodoxy is then continued by seeking to balance the NGP's supply-side emphasis against the role of demand, not least because in South Africa, "the domestic market is relatively narrow due to the relatively small population, <u>low employment levels and deep inequalities</u>", p. 8, emphasis added. The proposed remedy is to draw upon Southern African regional markets. The issue here is not whether this is desirable in and of itself (together with export success) but the total failure to recognise the solution to the problem that has already been identified in the way in which it has been posed. If low employment levels and deep inequalities are the source of low demand for domestic production, all three of these can be addressed together by expanding employment, reducing inequality and expanding domestic demand!

Instead we are offered an extraordinary exploration of job creation through presentation of a graph of xy = 3.5% or so, where x is the employment intensity of growth and y is the rate of growth of GDP required to create 500,000 jobs per year. This is simply arithmetic with no analytical content whatsoever other than to suggest it is better to have a higher rate of growth and a higher intensity of employment if you want to increase employment. We are then offered five job drivers: infrastructure; main economic sectors; new economic developments; public services; and spatial development. Wish figures in terms of targets for employment creation are given but without much substance, and some of the rationale is troublesome. For example, 55% of a doubling of energy provision by 2030 is from renewables (albeit 25% from nuclear) implying, of course, 45% from non-renewables, presumably coal-fired. This does not do much for greening of the economy that is so heavily signalled elsewhere in the Framework.

From job drivers, the NGP then shifts to yet another framework (beyond developmental state and job drivers), involving "packages" for macroeconomics, microeconomics and social consensus (see above). The macroeconomics covers less than a page, p. 16, and makes the concession of a looser monetary policy but balanced by a tighter fiscal policy. Otherwise, it is difficult to discern anything that would distinguish it from the old growth path or trouble the IMF. At the risk of being unduly repetitive, the macroeconomic package is one that fails to recognise the key issue of capital flight, and the corresponding impact this has had on both putative trade-offs and the levels of the exchange and interest rates. The macroeconomic package makes no reference to the levels of investment that need to be generated and how this will be achieved.

This is sheer speculation but the macroeconomic package might just as well have been written by Treasury, or have been deferential to its continuing concerns (and those of the old growth path). For the undoubted need for lower exchange and interest rates is hedged by concerns that the benefits of these will be squandered in higher wages (and prices) rather than improved performance. The lesson to be drawn here is of the need to get beyond this simple impasse of macro-constraining the micro, and to address the two together in terms of ensuring adequate levels of investment through total reform of the financial and banking system.

The microeconomic package, by contrast to the macro, is much more expansive and offers ten programmes[16] and, interestingly, the goal of controlling inflationary pressures, p. 17. This is a welcome if unwitting recognition that the division between macroeconomics and microeconomics is unsustainable as inflation control surely belongs to macroeconomics. But I have something else in mind, that active industrial policy (programme 1), rural development (programme 2), labour market policies (programme 7), and so on are both macro <u>and</u> micro simultaneously or, more exactly, dissolve the distinction between the two and should be considered on their own merits as specific sets of policies geared to bring about economic and social transformation. Each is of sufficient weight that it should not be considered micro, and each is of such significance that it should be integrated into an understanding of the workings of the economy (and society) as a whole.

There is much to commend, for example, the industrial policy that is being developed by the DTI, and what is now IPAP2. I am more or less bound to say this as, without wishing to claim any credit, it parallels closely the approach of the policy document that I wrote for COSATU some fifteen years previously, emphasising the need both to address vertical, sectoral policies, and horizontal, strategic initiatives, Fine (1997). But, amongst other such systemic considerations, I placed considerable emphasis upon the mobilisation and allocation of finance for investment, for which the NGP does offer a limited programme – essentially insufficient ends without sufficient means, ranging over reorientation and strengthening of the funding potential from existing state corporations and financial institutions such as the IDC, PIC and PostBank, p. 27. The point, however, is not that we have too little financial activity but too much, within the private sector, and it is this that must be redressed rather than its being complemented by state interventions in parallel to make up for its deficiencies.

Otherwise, there are some glaring inadequacies in the proposals. For competition policy (programme three), for example, there is a failure to take account of its inability to deal with the issues involved even if fully and effectively implemented. This was argued for steel in a paper drafted at much the same time as that on industrial policy, Fine (1998), and, of course, the government's problems with steel have subsequently worsened and revealed the limitations of its existing powers. Much the same has been exposed by the recent travails over the entrance of Walmart into South Africa to the apparent dissatisfaction of Minister Patel. The simple point is that competition policy is liable to be insufficient in and of itself as a lever of industrial policy. It is at most a heavily contested barrier to what private capital might do; it does not positively address the necessary issues of policy around levels of investment, markets served, employment generated, technology deployed, etc.

Similarly, all the skills and training initiatives (programme four) in the world do nothing to improve outcomes in the absence of job creation. And reliance upon SMEs and micro-finance (programme five) has surely long since passed its sell-by date given the voluminous critical literature in terms of how much it can deliver and what it delivers. Besides, the prospects for these depend much more on a vibrant economy than the other way about. Otherwise, there is a welcome recognition that BBBEEE (programme six) has been entirely unsatisfactory but no attempt to explain why this should have been so as both cause and symptom of South Africa's economic malaise. To put it in the vernacular, a new black elite has benefited from the processes of economic and social restructuring in a way that has been entirely parasitical and the exact antithesis of an aspiring indigenous, developmental bourgeoisie.

Concluding Remarks

The NGP Framework is strong on good intentions and rhetoric but, at the end of the day, is sorely disappointing. I have pointed to one major elephant in the room which it ignores altogether (capital flight). This beast is a major factor in and of itself and as a symbol of the power of finance that needs to be overcome if any new type of growth path is to come onto the agenda. Even if we are not blind to this elephant, there is another one on which it stands, the minerals-energy complex. This continues to drive the economy and underpins the symptoms that the NGP seeks to address. At least the Framework recognises the role played by the MEC in dictating a high capital-intensive trajectory at the expense of employment creation for serving domestic needs, if not acknowledging the MEC as such itself. Instead, it offers a few imaginary elephants of its own around which it gingerly manoeuvres, most of which reflect a lack of critical thinking, a failure to engage with South African realities and, most worryingly of all, a discourse of consensus-cum-sacrifice within the working class, not least to be delivered by trade union members in particular to allow "real gains for the working class as a whole", p. 29. Surely the time has come when "commitment to policies that support employment creation and equity" should be sought, if not demanded, from capital, even imposed upon it, rather than through the sacrifice of trade unionists? In this respect, careful reading of the Framework from such a perspective reveals that its politics are addressed at the labour movement with the aim of incorporating its quiescence in return for programmes which ought to be delivered in any case and which are all the less likely to be delivered the more the labour movement trims its energies.

Of course, the NGP is but one policy document that sets the context within which policy will be debated, struggled over and, ultimately, implemented with or without intended outcomes being realised. And, equally, some might accept many or all of the criticisms levelled here, and more, and still see the NGP as a strategic step forward (over the old growth path) and the basis on which further progress might be built. Such postures can hardly be faulted for their optimism. Whether they represent realism is another matter and the more likely prospect is for a partially and watered-down programme, with limited impact, growing dissent within the intended social dialogue and partnership, and business, unemployment, inequality and poverty continuing as unusual for post-apartheid economy and society that is so desperately in need of a genuinely new set of paths.

Footnotes

* "The New Growth Path: The Framework", Economic Development Department, South Africa, 2010. Some of the arguments offered here are developed at greater length in the references listed. Thanks for comments on an earlier draft.

[1] See Cornwall and Eade (eds) (2010).
[2] The text immediately continues, "The deep inequalities that rend our society complicate efforts to reach consensus", a recognition perhaps that the rich and powerful will defend their privileges and that consensus will not be able to redress them?
[3] It is necessary to be mindful that this is a Framework and not a work of scholarship, and to be assessed as such. Nonetheless, the Framework reflects analytical stances, however consciously, fully, and consistently, and is open to be assessed as such.
[4] The term risk recurs throughout the document and is indicative of being sensitive to conservative and financial reaction as well as unwittingly symbolic of the supposed commodity, risk, that is traded in financial markets.
[5] For a full account, see Ashman et al (2011), a contribution based on submission in response to declaration of amnesty, see below.
[6] Note also that, in my debate with the Harvard Group, it continues to fail to address this problem even though it could not be made more prominent in critique of them, Fine (2009a and b) and Hausmann and Andrews (2009). See below for implications for macroeconomic policy.
[7] For an overview of financialisation, see Fine (2011c).
[8] See Freund (2011) for South Africa as a developmental state in the past.
[9] There has been a subtle and unnoticed redefinition of GDP to include financial services where previously it was excluded. But what is provided in practice by financial services. The answer is trading in risk, putatively redistributing it to those more willing to bear it (as opposed to the reality of creating it for those who cannot). See Christophers (2011).
[10] The elephant of capital flight is also to be found across Africa as documented in a series of co-authored papers, most recently Ndikumana and Boyce (2011).
[11] For a critique of the space being opened by the IMF in this regard, see Gallagher (2011).
[12] See Fine (2011b) for some discussion of this, noting that it has only recently become more prominent in Chinese policymaking.
[13] For my own (co-authored) contributions on this, see Ashman et al (2010a and b) and Fine (2004, 2006, 2008a and b, 2010a and b, and 2011a) and Fine and Rustomjee (1997).
[14] See Bayliss and Fine (eds) (2008) for general arguments around water and electricity, and Kgara and Barsel (2010) for pharmaceuticals for example.

[15] A fourth section offers a cursory programme for implementation and is followed by an appendix with an outline for the five job drivers.
[16] Those not mentioned in what follows are programmes eight (technology), nine (trade) and ten (Africa).

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