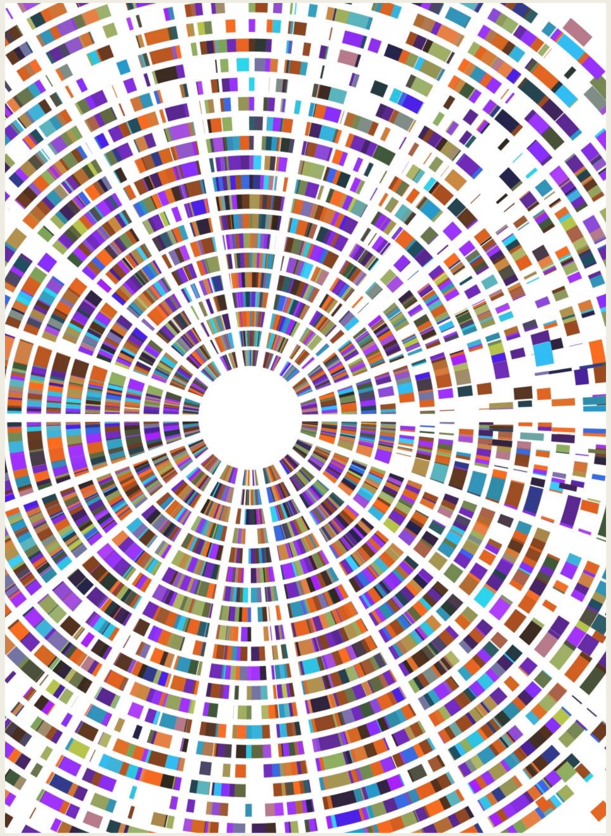

VISION 2035

A PLAN TO ACHIEVE FULL EMPLOYMENT IN SOUTH AFRICA

PRESENTATION TO SPI SYMPOSIUM

09 November 2023

SOUTH AFRICA: A DISMAL ECONOMIC PERFORMANCE

- Whichever way one slices the data, SA economy has performed dismally since 1994.
- After 29 years, government has not got its head around how to grow the economy and create jobs
- GDP per capita increased by 22% from 1994 to 2022. By comparison in local currencies:
  - *China 783%*
  - *Vietnam 337%*
  - *Ethiopia 315%*
  - *India 285%*
  - *Poland 216%*
- GDP per capita has not grown for 16 years and is projected to decline for another 3 years.
- By 2026 GDP per capita will be lower than it was in 2007.

WE CANNOT CONTINUE LIKE THIS

SOUTH AFRICA: AN UNVIABLE SOCIETY

Half the country lives in poverty:

- 1 in 5 people have inadequate access to food. (Stats SA)
- 10 million people and 3 million children went hungry.
- 1.8 million people and 400 000 children lived in households that had “perpetual hunger” – hunger every day or almost every day (NIDS CRAM, 2021)

Most unequal country in terms of **income (Gini)** among 164 countries (World Bank, 2022).

- The top 10% earned 67% of income.
- Top 1% took 21.9% (Chancel et. al 2022).

Most unequal country in terms of **wealth (Gini)**

- Top 10% owned 90% - 95% of wealth (Orthofer, 2016).
- Top 10% owned 85.7% of wealth. Top 1% owned 55%. (Chancel et al.)
- Since 1990, the bottom 50% has owned negative wealth (debt more than assets)

SOUTH AFRICA: AN UNVIABLE SOCIETY

Highest unemployment rate in the world

11.9 million unemployed people during Q2 2023. Unemployment rates of:

70.2% (Youth)

46.6% (Africans)

50.6.% (African Females)

53.5% (North-West)

42.1% for people of all races

Unemployment crisis is a national disgrace the most heartbreaking betrayal of the dreams and promises of our liberation. The government has failed the people who fought for so long for a better life for all

SOUTH AFRICA: LABOUR MARKET STATISTICS

	December 2008	June 2023	Difference
Population	31 987	40 746	8 759
NEA	11 273	12 527	1 254
Labour Force	20 714	28 218	7 504
Employment	14 769	16 346	1 577
Formal (Non-Agricultural)	10 221	11 329	1 108
Informal (Non-Agricultural)	2 365	3 029	664
Agriculture	807	894	87
Private Households	1 376	1093	(283)
Unemployed	5 945	11 872	5 927
Unemployment rate (%)	28.7	42.1	
Absorption Rate (%)	46.2	40.1	
Labour Force Participation Rate (%)	64.8	69.3	

Labour Force Growth Rate = 2.4%; Employment Multiplier 0.9

Need GDP growth rate of 4.9% just to create jobs for new entrants, let alone the 11.9m unemployed

Three levers to reduce unemployment – GDP growth, industrial policies and public employment programmes (PEPs)

NATIONAL DEVELOPMENT PLAN

NDP had targets to achieve

GDP growth of 5.4% a year

11 million jobs by 2030.

Investment to GDP ratio of 30%

Public Investment to GDP ratio of 10%

Shortfalls

R1 trillion a year to meet 30% target

R400bn a year to meet 10% target

Nobody responsible for achieving NDP targets

GDP growth and job creation were subordinate to other macroeconomic policy goals

Treasury focused on debt

Reserve Bank focused on inflation

NDP IS A VISION WITHOUT A PLAN

A VISION WITHOUT A PLAN IS A DREAM OR AN HALLUCINATION

ECONOMIC RECOVERY AND RECONSTRUCTION PLAN

ERRP had two interrelated pillars

Infrastructure

Structural reforms: code for privatization, deregulation and liberalization and withdrawal of state from network industries: electricity, transport, telecommunications and water.

IMF/Treasury say structural reforms do not deliver growth in ST

Infrastructure

In 2019, NT announced R100bn infrastructure fund. Each year made allocation to fund that was subsequently cancelled. No allocation in 2023 budget

Public sector investment strike: public investment declined 38% from 2015 to 2022.

ERRP does not explain what will be done to reverse this trend

Structural reforms (electricity)

RMIPPPP 150MW and investment of R16bn

BW 5 & 6: 2619MW and investment of R46.4bn

Registered embedded generation facilities with 4600MW and investment of R90bn

R50bn a year (5% of shortfall) over 3 years in R7 trillion economy

About half will create jobs in other countries, mostly China (imports)

ECONOMY SINCE 1994

	Gear (1996 – 2002)	Post-Gear Boom (2003 to 2008)	Two Lost Decades (2009 – 2022)
Government final consumption spending	2.1% a year	5% a year	1.5% a year
Public Investment (General government and public corporations)	**Investment strike** Declined by 1.5% a year from 1996 to 2001 Declined by 24.9% between 1998 and 2001. Returned to 1998 levels in 2004	**Investment boom** Increased by 14% a year from 2003 to 2008 increased by 92.4% from 2003 to 2008	**Investment strike** Declined by 2.4% a year Declined by 37.7% from 2015 to 2022
Average annual interest rates	17.7	12.7	9.3
GDP Growth	2.9	4.5	1.5
GDP per capita growth	0.6	3.2	(0.1)
Unemployment	Increased to 8m (40.6%) in Q1 2003 from 4.6m (33%) in 1996	Created 3.1 million jobs from Q1 2003 to Q4 2008. Unemployment declined to 5.9m. Unemployment rate declined to 28.7%	Unemployed increased by 6 million to 11.9 million from Q4 2008 to Q2 2023. Unemployment rate increased to 42.4%

Economy grows and creates jobs when government invests in its people and infrastructure

NATIONAL PLAN FOR ECONOMIC DEVELOPMENT

Mobilising vision and plan (China, Malaysia, Japan, South Korea, Ethiopia)

- 20 -year vision, Double size of economy every decade. 5-year plans with annual targets. Adjust tools of macroeconomic policy to achieve annual targets

State capacity to initiate growth and development

High rates of capital formation (30% to 50%)

Human development (education, health and social security)

Industrial upgrading

Macroeconomic policy (wider range of policy tools than Keynes)

- **Multiple tools** (state control of finance, exchange rates, capital controls, quotas, differential interest rates)
- **Multiple targets** and objectives (growth, unemployment, sectors and inflation)
- Inflation targeting (one target, one tool) is primitive and not fit for purpose.
- Close co-ordination of monetary, fiscal and industrial policies
- Implications for mandates and independence of central banks

A MARSHALL PLAN FOR SOUTH AFRICA

The challenge of unemployment is huge. Yet so often, initiatives to address it are at the project scale, reaching under 10 000 people. We will never dent unemployment at that rate (The Presidency, 2023)

- Must understand scale of the overlapping crises
- Cannot aim a water pistol at a blazing inferno of unemployment. Getting 11.9 million people to work is equivalent of a war effort.
- Need GDP growth of 4.9% just to absorb 700 000 entrants to labour market each year
- GDP growth alone not enough. With 6% GDP growth there will be 6.3 million unemployed people by 2035
- There is no single policy that will get country to full employment
- Need multiple policies to address the multiple dimensions of the crises
- By definition, the policy tools to confront crisis must be **very large** and have an impact throughout the economy
- Unemployment, poverty and inequality are macroeconomic policy issues that cannot be addressed through projects

VISION 2035: A PLAN FOR FULL EMPLOYMENT

1. Mobilising vision and plan with 6% GDP growth target that is binding on NT and SARB
2. Basic Income Grant (BIG) over 3 years at the 3 poverty levels
3. Job Guarantee – amalgamate public employment programmes and create quasi-public institution with civil society oversight and professional management with capacity to provide five million jobs
4. Infrastructure spending- 10% to 15% public spending. Whatever it takes to get to 30% of GDP
5. Industrial Policies – spend 2.5% of GDP and 1% of GDP on black SMMEs. Quotas for bank lending
6. Universal public services – free quality, education and health, public electricity and subsidized mass housing and public transport
7. Regional Integration

A MOBILISING VISION AND PLAN

- **New macroeconomic policy framework with minimum GDP growth target of 6% a year** that is binding on Treasury and Reserve Bank. Can exceed target if possible.
- Non-negotiable GDP growth target must be first step in healing the trauma of SA's painful past
- Without binding target that will mobilise society, there is no future for SA, especially youth
- Everything we try to implement to address the unemployment crisis will fail.
- Every year we postpone making the bold decisions that are required to achieve the GDP growth target will result in rising unemployment and make the crisis worse
- Must spend the difference between GDP growth forecast of 1.5% and 6% GDP growth. If we blend consumption and infrastructure there could be multiplier of 1.5. **Must spend 3% of GDP or R200 billion**
- Developmental central bank with triple mandate of GDP growth, employment and inflation. Must lean towards a competitive exchange rate that supports exports and industrialisation

BASIC INCOME GRANT

Considered two options from eight scenarios

- **Option One:** Adult BIG (18 – 59) **with three-year implementation at** three poverty lines
  - *R374.8 billion over three years. Did not provide a large enough stimulus to the economy*
- Preferred **Option Two BIG for adults and children** who received child support grant (CSG) of R480 a month in 2022. BIG must be as large as possible to maximise stimulus and economic impact
- Escalated 2021 poverty lines by 5% a year. Three-year implementation from 2023-2024
- Food poverty line of R655/month in 2023-2024; lower poverty line of R982/month in 2024-2025 and upper poverty line of R1546/month
- Would cost R547.8 billion over three years
  - *Must distinguish between gross and net cost. Almost 50% returns to government through VAT, claw back from taxpayers and higher tax revenues due to stimulus effects*
  - *Minus R120 billion if one projects spending on SRD for three years*

BASIC INCOME GRANT

- Equivalent to 2.5% of projected GDP of R21.8 billion over three years. If household discovered that it would cost 2.5% of income to eliminate black tax, they would pay without batting an eyelid
- SA debt ratio not high by international standards. Would increase debt ratio by between 2.4 and 3.1 percentage pints. Small price to pay for policy that would eliminate income poverty
- Provides **first stimulus** to economy of between 2.5% and 3.8% of GDP.
- GDP growth rate of between 4.3% and 5.6% a year. Quickest way to get to 6% GDP growth rate
- Will create between 1.6 million and 2.1 million jobs – much higher than 640 000 jobs that would be created under NT baseline forecast of 1.8% a year
- Provide **first dignity floor** below which no South African would fall
- **During Implementation period, the government must put in place measures to lock-in the higher GDP growth rate until 2030 and beyond**
- **Must be** second stimulus **that will increase spending on infrastructure, industrial policies that increase the employment intensity of GDP growth and public employment programmes**

FUNDING OF THE BIG

“It’s the economy, stupid.”

BIG is affordable with a higher GDP growth rate

- **If primary objective is economic recovery** there should be no funding beyond 50% self-financing – VAT, higher taxes due to stimulus effects and claw back from taxpayers – that eventually returns to the government.

BIG is not affordable within the current path of low GDP growth and austerity

- **If the primary objective is redistribution** - financing through new taxes - this will impede economic recovery, retain harmful austerity and make BIG unaffordable
- There can be taxes on the top 1% who do not spend most of their income into economy. Such taxes will not impede an economic recovery. But this must be to reduce inequality and is not necessary to fund BIG

Financing a stimulus – Options to end Austerity

1. Monetary finance – central bank money creation to support public spending
2. Direct central bank lending on favourable terms - repo rate, payment holidays
3. Quantitative Easing (QE) – purchase government bonds (Yield Targeting)
4. Restructuring SA Inc. Balance Sheet (R4 trillion)
5. GEPF Surpluses
6. UIF surpluses
7. Excess foreign exchange reserves
8. Direct PIC lending on favourable terms – lower rates, payment holidays)
9. GEPF payment holiday
10. Wealth taxes, curb illicit financial flows and reduce corruption

CENTRAL BANKS AND DEVELOPMENT

SA needs a developmental central bank that has a mandate to target GDP growth, employment and inflation. Must lean towards a competitive exchange rate to support net exports. GDP = C + I + G + (X –M)

- For most of 20th century central banks were agents of economic development, financing governments and wars, intervening in bond markets to reduce the cost of government borrowing, managing exchange rates and shaping the allocation of private capital
- After a pause during the neoliberal era from the 1980s, central banks started purchasing large amounts of government debt in secondary markets (Quantitative Easing or QE) and limited monetary financing after the global financial crisis and the Great Recession of 2007 to 2009.
- During the pandemic central banks pivoted to large-scale direct monetary financing - the issuance of public money to support government spending. Purchased 75% of new debt issued in 2020 (IMF). They nationalized bond markets, according to FT
- Separation of monetary and fiscal policy was an artificial construct that has come to an end.
- A developmental central bank in SA can finance government spending (monetary finance), reduce the cost of government borrowing (QE), capitalize development finance institutions (DFIs) and use regulatory levers (including quotas) to influence the allocation of private capital.

DEBT ISSUANCE ABSORBED ON CB BALANCE SHEET (2020)

Country	Increase in gross debt (2020) In billions of euros, pounds and dollars	CB bond purchases in billions of euros, pounds and dollars	Percentage of net increase absorbed
Germany	€268	€227	85
Greece	€10	€18	177
Ireland	€14	€16	115
Italy	€163	€175	107
Portugal	€21	€21	102
Spain	€157	€117	75
Euro Area	**€1 080**	**€901**	**83**
United Kingdom	**£315**	**£306**	**97**
United States	**$4 909**	**$2 359**	**48**

RESTRUCTURING SA INC. BALANCE SHEET

Given that the PIC is a defined benefit fund, it would be inappropriate to consider any returns accruing from such investments to be benefitting the beneficiaries. This is simply because the pension benefits are predetermined. Such investments are essential to the extent that the employer (government) is able to meet its obligation to employees

(Trevor Manuel, Today's Trustee)

- In 2016, Neva Makgetla (TIPS policy brief) brought attention to the growing UIF surplus (> R100 billion) of more and said it could be used to finance stimulus. During pandemic, UIF created almost R60 billion out of thin air when it ran down the UIF surplus and paid 13.8 million people who were temporarily unemployed. There is still R110 billion surplus. There was no need for it before the pandemic. There is no need for it now
- From 2011-2012 to 2021/2022, the Government Employees Pension Fund (GEPF) accumulated surpluses of R525 billion (R50 billion a year). There is no need for this surplus.
  - *GEPF has funding of 110% - R372 billion above 90% target set by trustees*
- Excess foreign exchange reserves– R750 billion above benchmark that they must cover three months of imports
- SA Inc. has a vast public sector balance sheet of almost R4 trillion
  - *PIC assets of R2.6 trillion*
  - *Foreign exchange reserves of R1.2 trillion*
  - *Cash of R150 billion*

RESTRUCTURING SA INC. BALANCE SHEET

There are two ways of funding pensions

- Pre-funding (fully-funded). Companies can go bankrupt and need to pay all pensions on the same day
- Pay-As-You-Go (PAYG) no scenario in which government can close shop and have to pay all pay pensions on same day

There are two ways of designing pension funds

- Defined contribution: based on contributions and performance of the fund
- Defined benefit: Based on final salary and years of service

GEPF is a defined benefit fund. Workers do not benefit when investments perform (Tencent) or loose money when they fail (Steinhoff)

The proposal is that there must be a one-off restructuring of SA Inc. balance sheet

- Reduce PIC assets and FX reserves by 50% - or R1.9 trillion
- PIC can write off state debt of R700 billion (15% of debt) and Eskom debt of R90 billion
- State debt will decline to 65.5% from 74.7%

INCREASED BORROWING

- SA projected debt for 2023-2024 is R5.1 trillion, equivalent to 74.7% of GDP. Net debt after considering cash of R150 billion is projected to be R5.1trillion or 72.6% of GDP.

- **There is no universe in which this is a high debt ratio.** All countries had a sharp increase in their debt ratios during the pandemic in 2020. By comparison in 2023:

  – *World average (93.3%), advanced economies (112.4%), emerging market and middle income (68.8%), Asia (79%.) G20 emerging G20 (72.6%)*

  – *Brazil (88.4%), China (82.4%), Egypt (92.9%), India (83.2%)*

- The SARB can intervene in the bond market (nationalization) to reduce the cost of capital. Yield targeting. Yield curve control

- Even if debt ratio was high, austerity is not the way to reduce it. We need GDP growth

- SA has GDP growth problem, not a debt problem