Economic Policy, Growth and Equity.

Introduction

The six articles in this collection consist of five academic analyses of problems facing the South African economy and what might be done about them and a party manifesto. Insofar as the left/right distinction continues to make sense, the academic studies are ordered in terms of it. Eustace Davie represents a right libertarian perspective, assigning the poor performance of the South African economy to various forms of government interference. The following three articles (by Andrew Donaldson, Michael McGrath and Gavin Maasdorp/Julian Hofmeyr) can be described as centrist and the final article by Stephen Gelb comes from a socialist position which takes seriously the crisis within the socialist tradition and seeks new articulations. The Democratic Party Economic Policy Manifesto "A social market economy" is the last document in the collection.

There are some themes which are taken up by a single author and some which are dealt with by more than one. Specific to the right libertarian position are proposals to stop inflation by freezing the money supply in its most narrow definition (notes and coins in circulation plus deposits of financial institutions with the Reserve Bank), to allow foreign currencies to compete with the Rand within South Africa, to give shares in all state enterprises to all citizens and to slash taxes. Critics of these positions would argue that the causes of inflation are more complex than implied by the policy proposal and that the real costs of this policy measure (assuming that it did manage to stop inflation) may be higher than the real costs of tackling inflation in other ways. They would also argue that the ultimate outcome of giving shares to all citizens would not be the same as the distribution of wealth immediately after the allocation of shares. The poor would find themselves holding more than the desired stock of wealth for their levels of income and would sell shares to richer people, devoting the proceeds to the financing of consumption. Moreover, if shares are given away, it is also not clear where the money would come from to balance the budget and reduce or pay off the public debt. The argument about the deregulation of exchange rates and the effective removal of the prohibition on holding foreign currencies is the most interesting and may be studied in greater detail in authors like Hayek.

Donaldson offers some unusual and interesting perspectives. He observes that, as well as costs, there are benefits resulting from the imposition of financial sanctions in the form of forced increase in savings and acquisition of foreign assets on favourable terms. The rise in semi-skilled wage rates over the last two decades has forced accelerated learning both in the formal and the informal sectors. There will also be a forced increase in investment in urban infrastructure. The greatest danger lies in major institutional changes without dismantling of outmoded attitudes and behaviour; this leads to severe social conflict.

The extract from Michael McGrath's inaugural lecture deals with a strategy for redistribution with growth. Means suggested include stimulation of agriculture, deregulation of small business, increase in old age pensions, a labour-intensive programme of infrastructure construction and educational reform. McGrath estimates that (assuming user charges for quality services) an equalitarian supply of educational and health services, basic housing provided over a decade, and pensions can be attained by increasing total government expenditure by 35% above its present level. Given a 5% growth rate from a 1989 base, McGrath sees the share of government in GDP as not exceeding 31% in the period up to the year 2000. His scenario requires huge capital inflows in the first few years, with a consequent rapid rise in the ratio of foreign debt to GDP. Should these not be forthcoming, the process would have to be slowed or halted. Policies to stimulate domestic savings and restrain government spending would also be essential. McGrath sees the International Monetary Fund as helping to impose the necessary discipline.

As far as redistribution through the state is concerned, McGrath argues that the tax system is a weak redistributive device. A modest increase in redistribution can be achieved by estate duties imposed with a lower exempted value than at present. Instead, he sees much greater scope for redistribution on the expenditure side, arising from the elimination of racial inequalities and the introduction of better targeting of the poor.

McGrath mentions the use of housing and construction as lead sectors in an inward industrialisation policy. Maasdorp and Hofmeyr take up this theme in more detail, observing that particular attention needs to be paid to the funding of expenditure, job-creation potential and impact on consumer spending, savings and investment. They warn that concentration on inward industrialisation should not detract from the tasks of productivity improvement, extension of export markets and streamlining of the institutional and regulatory environment. Nor should rural areas be neglected.

Gelb distinguishes between an "neo-liberal export-oriented growth strategy" and a direct growth strategy based on expansion of labour-intensive basic consumer goods industries. He regards these strategies as having substantially different implications for the nature, extent and time-scale of redistribution and sees little scope for a compromise between these strategies. The direct growth strategy would focus on the redistribution, not of consumption, but of investment. This redistribution would require substantial state intervention in the investment process, private firms accepting a subordinate role in exchange for the creation of a framework for profitable production. Part of the process would involve the dismantling of conglomerates and an increase of the role of the banks (subject to the regulation of the Reserve Bank) in corporate financing. (McGrath argues for a contrary view on the role of the conglomerates. He believes that they should be used constructively for increasing investment, especially in the small business sector.)

Two observations on Gelb's arguments need to be made. The first is that it is not obvious that a balance cannot be struck between export promotion and inward industrialisation. Even if inward industrialisation does not require much by way of imports because of relatively low import intensities and existing excess capacity in many sectors of the economy, there will be an increase in demand for imports, room for which has to be made by increasing exports or by capital inflows. The prospects for large capital inflows do not seem all that bright; this is one of the major problems with McGrath's scenarios. On the other hand, suitable conditions for investment will not be created unless there are widely-distributed increases in living standards; this requires expansion of the output of housing and basic wage goods. The second is that, although Gelb refers to conditions for profitable production, he does not spell out what creating these entail. Take housing for example. A successful housing programme requires a change in government subsidy policy, change in the retail practices of financial institutions and a sharp increase in the capacity of local government to regulate development and undertake the necessary infrastructural development. Were reforms of this type to occur, a case can be made for expecting private funds to flow in the appropriate direction without much in the way of state regulation. Further, were funds to be directed into housing without these reforms, one could expect substantial inefficiency to result. Development is at least as much about institutions and habits as it is about money.

Finally, the economic policy manifesto of the Democratic Party – the standard-bearer of liberal reform in South Africa – is printed. The policy models itself on the "social market" approach – this has been the broad West German consensus (obviously with different party emphases). In outline, it is compatible with the three liberal academic analyses in this collection.

The question arises: what are the political conditions for the successful application of Liberal policies to the South African economy? Three seem to be of central importance:

i) the South African economy must be successfully reintegrated into the world economic order. This will have three desirable results: it will become easier to expand exports, it will help turn capital outflows into capital inflows and it will subject South Africa to the discipline of international markets. A more liberal foreign exchange regime may both be required and facilitate this reintegration. Such a regime would provide rapid feedback of both successful and unsuccessful policy innovations at the national level;

ii) South African business must take advantage of this reintegration by devising strategies for export promotion. Quite what role the state needs to play in this is the subject of an active contemporary debate. Positions range from "getting prices right" to advocacy of quite detailed state dirigisme;

iii) measures need to be taken to ensure that the benefits of demand expansion made possible by the easing of the balance of payments constraint are spread widely throughout the society. This will involve reform of state practice, courage on the part of private enterprise to enter new domestic markets and a series of compacts between interested parties on the ground rules of how living conditions are to be improved (e.g. in the fields of housing and electrification). Particular attention will need to be paid to poverty alleviation. The aggregate increase in personal incomes required to bring households up to Minimum Living Level is not great in relation to total personal income; the difficult part is accurate targeting. □

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