

Presentation to FAWU NEC on aspects of the National Development Plan*

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*Note: this input is based on a draft discussion document, focusing on the NDP's economic & labour market proposals. COSATU has not yet taken an official position on the NDP as a whole.

The NDP and Mangaung

- ANC approach: give broad endorsement of *vision* of NDP, and engage with detail later. Conference failed to interrogate the document, against policies of movement or commitment to radical 2nd phase, eg ETC commission.
- Notion of *living and dynamic* document (ETC commission) understood as code for idea that ANC may not be endorsing detail, and could deal with problem areas later.
- Problematic for 2 reasons. Underestimated : 1) extent of contradictions between NDP and ANC policy & 2) pressure which would come from right in movement, state and capital to align all other policies with NDP.
- In reality, overall endorsement of vision by Conference Declaration accompanied by mix bag from commissions of detailed endorsement, qualified support, support limited to general vision, and in 1 case open critique (int relations).

The NDP and Government

- Initially, in the SONA address, President pursued approach of NDP as long term broad vision. Emphasis rather on government policies such as Infrastructure development, Ipap
- However, by his reply to SONA debate, 21 February, announced that all government policies would be realigned to NDP.
- This realignment of all policies to the NDP would be done by the July 2013 Cabinet Lekgotla, to prepare governments 5 year medium term strategic framework (MTSF) for 2014-2019 as the mandate of the next ANC government.
- Business, supported by the DA, has been strongly pushing for the realignment of govt policies to the NDP, specifically mentioning Ipap and the NGP- see Busa statement p18
- Key area of contestation will be economic & labour market policies. This is area we focus on here.

Problems in interpreting the NDP

- The NDP is complex & lengthy- 484 pages, written in an highly inaccessible way;
- It often speaks in code. Difficult to uncover its underlying theoretical approach, & logic of its proposals, both in analysing what it says, & what it omits to say;
- Packaged to appeal to various constituencies. Uses certain buzzwords. It masks more than it reveals;
- NDP inconsistent & contradictory. NPC experts come from conflicting approaches. Presidency & Treasury bureaucrats have placed their perspectives into the document. A no. of commissioners unhappy with certain elements of the NDP. No formal sign-off on final product;
- Selectively uses certain government policies & ignores others. Proposals contradict critical elements of NGP/ Ipap- govts lead strategies over medium term. Which policy prevails? Undermines greater co-ordination emerging through eg the infrastructure plan;
- Plan is riddled with errors, & selective & incorrect interpretations of key literature. Confuses a number of its own figures & projections on poverty, employment etc. and makes elementary mistakes in terms of what these say. Raises questions as to how many more mistakes have been made.

Statistical and factual errors

Some errors include-

- *Poverty measure-* in the chart on p118, the NDP uses a poverty measure of R418 *per day vs R418 per month* in other places
- *Labour force participation rate-* the chart on p118 gives the target for 2030 as 65% *but as 61%* in the text.
- *Employment scenarios:* p121, table 3.1 incorrectly calculates the totals in the 3 employment scenarios, calculating the *employment total* in each scenario as 23,76 million, even though the subtotals for the sectors under each scenario differ substantially from each other
- *Finance and retail employment growth-* claimed levels of employment growth in the financial sector are not supported by data; and claimed employment of 5 million in retail, is more than double the actual total.
- *Average wage figures-* on p132 the NDP cites various 'wage averages', but the figures are actually wage medians, or other cutoff points between deciles and quarters.
- *On the ratio of Public service wages:GDP* the NDP states that it is more than 12%. But a Treasury spokesperson at the end of last year stated that it was 11,5%
- The *GDP size* in 2030, very important for the NDP, is never stated exactly, but is cited in different places as 'more than twice' the 2010 GDP, & also as 'nearly 3 times' the 2010 GDP. This is at best sloppy work, at worst the NDP hasn't worked out its projections scientifically.
- *Proportion of services in employment:* on p123 it wrongly cites table on sectoral employment %s in different scenarios, stating that high level services increase from 15% to 22% in diversified scenario when they actually increase from **19%** to 22%
- *Public sector bargaining councils-* on p133, the NDP calls for sectoral bargaining chambers in the bargaining councils, when these already exist.

Targets for 2030

EMPLOYMENT TARGETS (2010-2030)

Millions	2010	2015	2020	2030
Non-working age population	18	18.2	18.8	20.6
Working-age population (15-65)	32.4	35.1	36.5	38.8
Labour force participation rate, percentage	54%	57%	60%	65%
Labour force (million)	17.5	19.8	21.9	25.3
Age dependency, ratio	1.6	1.5	1.5	1.5
Employment target				
Unemployment rate, percentage	25%	20%	14%	6%
Employment (million)	13	15.8	18.9	23.8
Net new employment needed (million)	0	2.8	3	4.9
Dependency ratio	3.9	3.4	2.9	2.5

Under these conditions:

- About 41 percent of the working-age population between 15 and 64 would be employed. The aim is to increase this to 52 percent by 2020 and to 61 percent by 2030.
- Real GDP more than doubles (implying average GDP growth of 5.4 percent between 2011 and 2030). At this rate of growth, there will still be substantially more reliance on very low-income employment, survivalist activities and public employment schemes.
- The proportion of the population with income below the poverty measure of R418 per day (in 2009 rands) falls from 39 percent in 2009 to zero in 2030. The level of inequality will fall from 0.7 in 2010 to 0.6 by 2030. The share of income going to the bottom 40 percent of income earners rises from 6 percent to 10 percent.

On average, the dependency ratio (the number of people depending on one wage earner) will fall from 4 to 2.5. For low-income households, this ratio will fall from an average of 5 to 6 down to 4 to 5. A falling dependency ratio will be a central contributor to reducing poverty and inequality.

Do we support this vision?

- At first glance these targets for 2030 seem positive, & ambitious. But close scrutiny reveal that aspects of this economic vision are quite problematic
- Dramatic headline is Plan proposes to create nearly 11 million jobs by 2030, & reduce unemployment rate to 6%. Further, proposes a reduction of inequality, & elimination of extreme poverty by 2030. Looks good. But when we subject this vision to further scrutiny, serious problems emerge, meaning that it won't achieve its own targets including...
 1. The NDP's jobs plan is problematic & unsustainable
 2. It fails to pursue the NGP/IPAP vision of reindustrialising the economy
 3. The NDP is premised on undermining worker rights, & a low wage strategy
 4. The NDP proposes a business as usual macroeconomic stance
 5. The NDP accepts the persistence of high levels of inequality
 6. Its poverty and unemployment projections are dubious

1. The NDP's jobs plan is problematic

- Success hinges on creation of mostly low quality, precarious jobs outside the core productive sectors of the economy.
- Target of 11 million jobs by 2030 relies largely on SMME jobs, & jobs in service sector. The NDP proposes that 90% of the new jobs will be created in SMMEs! Draws on faulty analysis of recent SMME performance. But SMMEs have shown little increase in share of employment over the last decade. Recent study of firm performance 2005-11 concludes that job destruction was far higher in small firms- large firms have a higher rate of net job creation.
- NDP expectation that 9,9 million jobs will come from SMME's is highly unrealistic. Highly likely that many of these jobs won't materialise. Those that do, will mostly be of low quality. The plan concedes that it is based on the creation, particularly in the first 10 years, of low-paying jobs, as opposed to decent work.
- The SMME-dominated, low wage employment strategy is very different from the decent work policy mandate of the ANC & Alliance, as well as economic policy documents of government. The key to the NDP's SMME focused 'employment strategy' which was in significant part driven by Treasury-aligned technocrats, lies in the old Treasury agenda of deregulating labour markets- see below.

2. The NDP fails to pursue a vision of industrialisation

- The NDP fails to pursue **NGP/IPAP vision of reindustrialising the economy**. Central to this vision is role of radically expanded manufacturing sector as engine of economy. At heart of growth path, not just because of the numbers employed, but also because of multipliers, critical to alter the trajectory of growth, & build a more equitable economy. The new growth path aims to move away from a narrow consumption-led, financialised, & service driven economy, perched on an untransformed minerals sector. The NDP fails to take this vision of industrialisation forward, but rather proposes strategies entrenching some of the worst features of the old growth path.
- There is no industrial strategy in the NDP. The first phase (2013- 2018) of the NDP strategy revolves around a low-wage, service led, and SMME focused perspective. There is no attempt to engage with the IPAP or the NGP. There is not a single reference to the IPAP in the entire 484 page document!
- The plan envisages the share of manufacturing in total jobs *shrinking* from around 12% in 2010, to 9.6% in 2030. But employment in services increases by five million jobs, or up from 30% as a percentage of employment to a whopping 40% in 2030. Of the 11 million new jobs envisaged in the NDP, nearly two thirds will come from services, domestic work & the informal sector. Hardly an industrialisation or diversification strategy!

2. The NDP fails to pursue a vision of industrialisation II

- The NDP presents this approach as inevitable (p112), & in line with comparable countries internationally. The implication is - manufacturing is marginal, services are central, & low paid work will dominate, until NDP phase 3- building a 'knowledge economy'. Doesn't reflect on fact that our growth path has mutated into this consumer-driven, service-centred economy, with disastrous economic & social consequences. To reinforce it in our 20 year plan is the height of folly.
- The 2nd implication drawn by the NDP is that we will have to come to terms with 'international reality' that atypical work now predominates, & therefore by implication we must adapt to the reality of insecure work, contracting out, labour broking etc- p112
- The NDP proposes to postpone interventions to the 2nd phase (2018–2023) of the Plan, which are already being carried out in terms of the IPAP, NGP, & infrastructure programme, including on: diversifying the economic base; building capacities required to produce capital & intermediary goods for the infrastructure programme & sub-Saharan Africa; resource-cluster development for the mining industry, production of capital goods, and beneficiation. NDP p157

2. The NDP fails to pursue a vision of industrialisation III

- The NDP substitutes the IPAP with a **cluster strategy** (*see critique p6-7* on agriculture etc.), but because drafters don't believe in a state-led industrial strategy, it is half hearted, fails to propose serious measures to transform structure of the economy, and is premised on virtues of competitiveness, exports, & unleashing of market forces. While less blatant in its language, it takes us back to the 'industrial strategy' of Gear, which was premised on liberalisation, deregulation & the cold wind of competition - a strategy which succeeded in delivering *deindustrialisation*
- The NDP's employment strategy focuses on SMME's & services, but its economic strategy is **export-driven**, & exports are regarded as the main catalyst of growth. Economic strategies dominated by a focus on exports, are associated with neo-liberal growth models. Gear's growth strategy aimed to expose the country to the cold winds of competition, & cheapen the relative cost of labour & production. Argued that large sectors of economy were uncompetitive, & that cheap imports, through liberalisation of tariffs & trade, & restrictive macro-economic policies, would lower the overall cost structure of the economy. Exports would tend to concentrate on 'traditional strengths', ie raw materials, & certain niche products. Broad-based industrialisation in this model was not a realistic option, because we were regarded as 'uncompetitive', & production for the domestic market not a serious element of the economic growth strategy. While not explicitly stating its strategy in these terms, the thrust and logic of the NDP is broadly consistent with this approach. (*see critique p7-8*)

3. The NDP is premised on undermining worker rights, & a low wage strategy

- The key to the NDP's "employment strategy" which was in significant part driven by Treasury-aligned technocrats, lies in the old Treasury agenda of deregulating labour markets. The plan proposes a series of measures which, through legislation or social coercion, would have the effect of undermining existing worker rights, & promoting a new stratum of ultra-low paid first-time workers, earning even less than low-paid workers are currently earning.
- This would be achieved inter alia through legislative measures aimed at making dismissals easier, allowing free reign to labour brokers up to six months of employment, reducing worker rights in SMMEs, & broadening the definition of essential services to prevent strikes in large parts of the public sector. This is combined with proposals to drive through agreements, & a social compact, providing for lower wages for first-time entrants to the labour market. (see critique p15-16 on labour market reforms)

3. The NDP is premised on undermining worker rights, & a low wage strategy II

- The NDP is based on the false assumption that by reducing wages employers will be more prepared to employ workers, particularly first-time workers. However, stats show : real median wages of low-skilled workers have fallen since the 1990's, but jobs for the low-skilled have shrunk by nearly a million. So, low wages don't create employment. On the other hand 2.5 million jobs have been created for higher paid higher-skilled workers over the same period.
- The NDP bases its proposal for a social accord on an equal myth, which assumes that if workers receive wage increases below the level of productivity growth (which has been happening for many years), because this raises the level of profit, employers *in return will deliver greater investment in job creation*. But the NDP shatters its own assumption, citing a study by economists that “profit margins are already very high in South Africa... *low profits may not actually be the reason for low levels of investment...* Given deep inequalities, workers do not see why they should accept wage restraint”! Nevertheless it insists that labour “has to recognise that some wage moderation is required...” (see proposals on social accord critique p12-14)

4. The NDP proposes a business as usual macro economic stance

- No reflection in the NDP on the failures of macro economic policy so far, or what a developmental strategy would entail. Plan very vague- only devotes 1 page to this key issue.
- Despite shattering of economic orthodoxy by the global economic crisis, NDP suggests an orthodox business as usual macro economic strategy: fiscal restraint and budget surpluses; floating (market-driven) exchange rates, and non-intervention in financial markets; a major focus on price stability, including inflation; cutting back of 'consumption expenditure' including implied cuts to public sector wages & the size of the public sector
- There is no talk of the need for an aggressive, systematic programme of macroeconomic stimulus, despite the financial crisis. NDP implies support for current line in ANC for greater fiscal restraint, combined with limited monetary policy easing.
- NDP does recognise that volatility, and overvaluation of currency, is a problem, but is against open intervention, and is unclear how to combat these problems with the currency.

The NDP proposes a business as usual macro economic stance II

- Uses old consumption vs investment paradigm in terms of state spending. Unclear how reducing spending on poor will enable state to eliminate poverty.
- Major focus on need for greater investment. But little role given to state in directing investment: neither through DFI's and parastatals; prescribed asset requirements for retirement funds; action against speculative financial investment; incentives for real economy investment etc.
- Mixed message on local procurement- see NDP p140.
- Wants conservative 'NDP economics' to be co-ordinated & enforced by Presidency. Aims to reverse slipping of grip by Treasury on economic policy- see NDP p154.
- Excessive focus on rate of economic growth (rather than its composition), as the major solution (average 5,4% to 2030). Hopes for high growth rates, without major structural transformation, in current global climate- unrealistic. Further, ignores need for major redistribution as key component of new growth path. Contradicts alliance positions.

5. The NDP is based on high levels of inequality

- NDP vision is based on acceptance that **high levels of inequality** will persist until 2030, contrary to policies of the movement that redistribution must form a critical basis of the new growth path.
- The plan proposes that the Gini coefficient, which measures income inequality, will only decrease slightly from its current world-beating level of 69% (or 0.69) to an excessively high 60% (or 0,6) by 2030. In terms of current measurements, 60% would still make our levels of inequality higher than any other major country in the world! This long-term target (which Brazil has surpassed in less than 10 years) is embarrassing for a country claiming to be serious about combating inequality. The average Gini for OECD countries, which don't have low levels of inequality, is less than 1/2 of this -- between 25-35% after taxes and transfers. The plan is premised on a massive increase in low-wage jobs, and increased profits for employers. Therefore levels of inequality between the top & the bottom will continue at very high levels, & possibly even increase.
- Linked to this, the NDP accepts that **massively high levels of concentration of wealth & poverty** will still be in place by 2030. It proposes to increase the share of income going to the *bottom 40% of income earners* from the current 6% to a *mere 10%*. The ambition of the NDP is therefore that nearly half of our people should receive 10% of the wealth after 18 years of implementation of the national plan!

6. Its poverty & unemployment projections are dubious

- The NDP uses a **very low poverty measure** of R418 a person, a month (2009 prices), suggesting that only households with an income of less than R2,000 a month are living in poverty. It claims 39% of South Africans fell below this level, and that by 2030 no-one will fall below this level. But this is a false target, as there is no basis for this poverty measure. The Household Subsistence Level & Supplemented Living Level calculate the *minimum income* a family of 5 needed to afford basic necessities, as around R3,500 a month in 2009, against the NPC figure of about R2,000. In December 2012 the BFAP found farmworkers wouldn't be able to afford enough food to feed their families adequately, if they earned R2,000 a month, let alone afford other basic necessities – therefore the R2,000 figure was way below what could be regarded as a basic minimum income level. And roughly 50% of South Africans lived below the R3,500 level in 2009. There is therefore no scientific basis for the NDP measure, beyond the well-known drive of Treasury to keep poverty line calculations as low as possible. A more realistic calculation of poverty levels would require NDP projections to be adjusted to reveal the persistence of unacceptably high levels of poverty, even by 2030. This is clearly a result which the NDP authors realised would be unpalatable.
- The **6% target for unemployment** is totally **unrealistic**: the NDP uses the official or limited definition of unemployment which *excludes* all discouraged workseekers (over three million unemployed workers are excluded from this definition). Its figure for unemployment is 25% for 2010, as opposed to the more realistic rate of over 36%. The 6% target therefore lacks all credibility, and would need to be recalculated to include all the unemployed excluded by the National Planning Commission definition. Again, the NDP authors didn't like the result this would have given them, and tortured the statistics into making a false confession!

Conclusion

- Therefore the big picture vision of the Plan is based on dubious assumptions, and problematic strategies, which leave the highly unequal structure of our economy, and economic marginalisation of the majority, essentially intact, with some tinkering around the edges. Contrary to the NDP marketing PR, the economic dimension of the Plan is not coherent or evidence-based, but highly ideological. It is based on faulty statistics, dubious economic assumptions and incoherent analysis. It certainly does not address the injunction of the ANC Conference to advance a radical economic shift to address the challenges of this phase of our democratic transition.
- We need to consider engaging with government and the ANC on the basis of the Congress Declaration, that the NDP, particularly on the economy and labour market, needs to be realigned with the ANC & Alliance agreed position that the main content of this 2nd phase of our transition must be a radical economic shift. This radical shift needs to be reflected in our national plan. Proposals in the NDP suggest a shift in the opposite direction.