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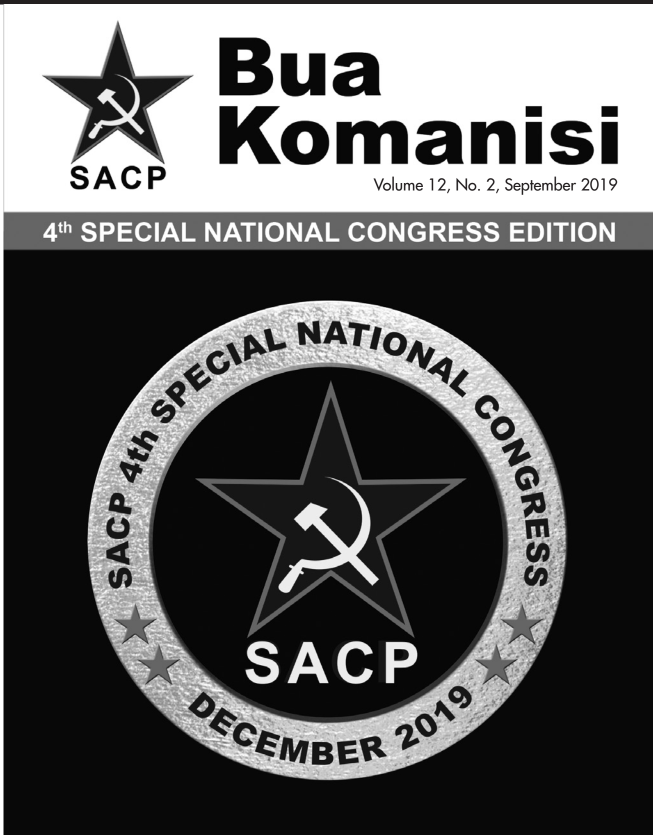

South African Communist Party

September 2019

SERVE THE PEOPLE AS A WHOLE, BUILD A PEOPLE'S ECONOMY

SACP's response to the National Treasury's 'Economic transformation, inclusive growth, and competitiveness: Towards an economic Strategy for South Africa'

SACP

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CHAPTER1: INTRODUCTION

On 27 August 2019 the National Treasury released a paper entitled 'Economic transformation, inclusive growth, and competitiveness: Towards an economic Strategy for South Africa' ('…economic Strategy for South Africa'; the National Treasury paper; paper by the National Treasury; the paper). The release of the paper was accompanied by a call for public comments by 15 September 2019. That is, within a period of 15 working days, or a total of 18 days inclusive of two weekend days excluding the due by weekend date, 15 September 2019. This insufficient time was given to the nation to decide its future.

It is to the development of the National Treasury paper and the process that was followed that this response refers. This response does not necessarily deal with every word and line in the National Treasury paper. To this extent excluded aspects, especially in so far as we disagree, shall be attended to as and when it is necessary in the course of the engagements both within the Alliance and in public policy discourse.

South Africa has an unemployment crisis affecting 10.23 million active and discouraged work-seekers, according to the 'Labour Force Survey' published by Statistics South Africa (StatsSA 30 July 2019). The expanded/real unemployment rate is 38.5%, while the narrow/official unemployment rate is 27.2%,[1] according to the statistical authority. Meanwhile, the National Treasury aims to create 1.011 million jobs on a combined long-term average – that is over ten years, from 2020 to 2030. The country's high unemployment rate regime is however more complex. To understand it, more factors have to be taken into account. These include annual population growth, new labour market entrants and retrenchments.

For example, the South African population reached 58.78 million in 2019, according to 'Mid-year population estimates' published

1 The expanded unemployment for the third quarter of 2019 went up, affecting 10.272 million active and discouraged work-seekers (StatsSA, 29 October 2019). The corresponding official/narrow unemployment rate rose to 29.1%, while the real/expanded unemployment rate remained 38.5%.

by StatsSA (29 July 2019), from 57.73 million in 2018, according to 'Mid-year population estimates' published by StatsSA (23 July 2018). Each year there are new matriculants who do not progress to colleges or universities, and thus immediately become unemployed, if they do not find work. Retrenchments add more workers into the ranks of the unemployed.

It is clear from the outset, before looking at the problems with the rest of the National Treasury paper, that it maintains the paradigm of a combined crisis-high unemployment and low employment creation.

This response comprises this introductory section as its first chapter, followed by four chapters. Chapter 2 looks at the process followed in relation to the development and release of the National Treasury paper. This is divided mainly into two categories, namely the organisational domain and reflections on government and the state in general. Chapter 3 reviews the National Treasury paper and engages with it. It is titled 'Embeddedness, orientation and general outlook of the National Treasury paper'. In this regard the chapter comprises numerous sections focusing on specific issues. Chapter 4 looks at the impact assessment of the National Treasury paper. Chapter 5 comprises conclusions and recommendations based on, and additional to those contained in, the preceding chapters.

CHAPTER 2: THE PROCESS FOLLOWED

Primary mandating collective leadership role of the ANC-headed Alliance

The process followed leaves much to be desired. The release of the paper was preceded by two important Alliance bilateral sessions, held a week before, on 19 August 2019. The first bilateral session was between the SACP and the Congress of South African Trade unions (Cosatu), while the second was between the African National Congress (ANC) and the SACP. Both the meetings discussed our serious national economic situation and the urgent necessity for a policy way forward.

It was agreed that an Alliance Political Council should be convened to reflect on the way forward. At the bilateral session between the ANC and the SACP, President Cyril Ramaphosa advised the meeting that a team had been established to work on a draft position paper. It was agreed that the contents of the paper should form part of the Alliance Political Council consultative process.

The release of the National Treasury paper just a week after the Alliance bilateral sessions therefore came as a surprise. The move rendered the bona fides of Alliance engagements questionable, particularly on the part of the ANC, the leading component of the Alliance both organisationally and in government. Moreover, the ANC-headed Alliance's primary mandating role in relation to its deployed public representatives was undermined.

By way of a brief background, the Alliance adopted a declaration in May 2008, committing to functioning more effectively as the strategic political centre of the National Democratic Revolution (NDR) – our shared democratic transition strategy. The declaration was adopted after years of problems that saw the strategic relevance and political centrality of the Alliance to the NDR undermined. During this period the Alliance's other components were marginalised. This eventually impacted the ANC. Similar problems were experienced in the period preceding the 54th

National Conference of the ANC held in 2017. The problems contributed, directly or indirectly, to a rebound of serious intra-Alliance tensions. Again the ANC was negatively impacted.

As a strategic response, in 2017 the SACP reaffirmed its historic commitment to the Alliance but called for its reconfiguration in order to safeguard and deepen its strategic relevance. This call was, notably, first made in July 2007, about nine months before the Alliance adopted its May 2008 declaration. It was through the declaration that the Alliance Political Council was established – to give practical expression to the primary position of the Alliance and its structural functionality as the strategic political centre of the NDR. At the heart of this process was, and still is, the imperative of strengthening our unity of purpose and cohesion and unifying the motive forces of the revolution. Collective leadership of the NDR and consensus-seeking consultation are among its central tenets.

During the course of the Alliance reconfiguration engagements following the 14th National Congress of the SACP held in July 2017, as well as following the 54th National Conference of the ANC, the strategic organisational perspective asserting the ANC-headed Alliance as a governing Alliance was endorsed. This innovation was moved by President Cyril Ramaphosa. The organisational and political process followed to come up with the National Treasury's paper, and the manner in which its release was handled, disregarded the perspective of the ANC-headed Alliance as the strategic political centre of the NDR and the governing Alliance.

In policy development, as in law making, process is as important as content. The Alliance was essentially relegated to tailing the process. This is indicative of a fault line in the way the development of the paper and its release were handled. Unless addressed, the fault line contains the real potential of developing and causing more problems as time unfolds.

Government-wide policy formulation co-ordination

The situation where, as it happened, a state-owned enterprise (SOE) or cabinet ministers were compelled to publicly disagree with or correct either misunderstandings or conceptual errors entailed in the National Treasury paper exposed something untenable with the process that was followed to develop the paper, in this instance in government and broadly the state, but as well as with its content. Telkom CEO and the Minister of Mineral Resources and Energy had to accordingly come out shortly after its release. The Minister of Employment and Labour was asked in parliament to provide greater clarity on the underpinnings of the labour market reforms pushed by the National Treasury in the paper. In the same vein, he deferred the clarification to a later stage pending engagements. In addition, he drew attention to the legitimacy of the legally recognised extension of collective bargaining agreements and the necessity to ensure compliance with the national minimum wage.

The manner in which the development and release of the paper was handled exposed the fact that it was not a collective cabinet product, nor was it an approved cabinet policy position paper for public comment. The less said about the exposure of cabinet incoherence, the better.

The key industrial departments should have been properly co-ordinated to play a lead role in producing a national industrial development and employment strategy, instead of being compelled to tail behind the National Treasury. The departments of basic and higher education, science and technology are also obviously well-positioned to play a lead role with regard to education, skills development/training and technology aspects of such a strategy, based on their primary mandates. They should have accordingly formed part of the co-ordination.

The National Treasury is responsible for the co-ordination of macro-economic policy, according to the Public Finance Management Act. However, its paper focuses on sectoral areas, which fall in the policy domains of other departments. The paper is virtually devoid of the National Treasury's own primary mandate. Related to this, the National Treasury paper is devoid of the collective ANC-headed Alliance macro-economic policy commitment entailed in the May 2019 general election manifesto that we have taken to the electorate to seek electoral support.

The SACP has found it necessary to stress the importance of safeguarding government coherence and our democratic national sovereignty, inclusive of the sovereignty of our policy space. The next sections elucidate further on this score.

CHAPTER 3:

THE EMBEDDEDNESS, ORIENTATION AND GENERAL OUTLOOK OF THE NATIONAL TREASURY PAPER

The integrity of our policy space

Where does the National Treasury actually take its cue?

It is not our intention to review in this document all references made in the National Treasury paper, or from which the National Treasury takes its cue in its paper. A few aspects are, however, necessary to say something about at this stage, while the others will be discussed as and when it becomes necessary during the course of the discussion and policy engagements.

The National Treasury paper contains nine OECD references, centred on OECD economic surveys and assessments of South Africa. Its content and approach domesticates OECD prescriptions ('recommendations') for South Africa. The paper codifies, but not exclusively, 'recommendations' from the OECD (2017b) 'Economic Surveys: South Africa'. Related to this, other OECD 'recommendations' pushed in the paper are contained in, but not exclusively, the OECD (2017a) *Economic Policy Reforms 2017: Going for Growth*. The latter is specifically not necessarily referenced in the paper. Furthermore, the paper pushes International Monetary Fund (IMF) advices, identifiably those contained in the 'IMF Country Report No. 18/246' of 2018 (or IMF 2018). This report is also not referenced in the paper.

Compare the codification of the foreign organisations' policy prescriptions on the economic policy direction South Africa should follow to our governing party, the ANC, let alone the ANC-headed Alliance. There is no single reference in the National Treasury paper to the ANC. The manifesto that the ANC developed in consultation with the ANC-headed Alliance components comes across as non-existent or as something that does not matter in the minds of whoever was involved in producing the National

Treasury paper. The manifesto was endorsed by the entire ANC-headed Alliance and other progressive supporting organisations and taken to the people to seek electoral support for the ANC. We return in different sections to the important mandate of the ANC May 2019 general election.

Embeddedness

The thrust of the National Treasury paper is embedded in the private sector (private profit sector). Meanwhile, we are told that attaching great importance, as we resolutely do, to the pursuit of public property protection, development and growth is ideological. It is as if those who are pushing the individual empowerment of a few in pursuit of private profit are not embedded in an ideological agenda. On the contrary, they are advocating a politics of wielding state power to facilitate the handover of national assets and public resources into the hands of a few, through privatisation, among others. This ideology elevates the private profit interests of the class of its economic ownership beneficiaries above the interests of the people as a whole. Its overall trajectory comprises pushing private profit interests masked in the trickle-down propaganda that the benefits will evenly spread across the rest of the population and eliminate inequality, poverty and unemployment.

Ours is a public interests approach that underlines the need to pioneer the development, expansion and success of the public interests sector (also known commonly or in short as the public sector), guided by the strategic perspective to move our democratic transition on to a second radical phase towards building a people's economy and shared national prosperity. This includes the much needed turnaround of public entities and SOEs, and therefore involves the national imperative of re-building, expanding and diversifying the publicly-owned economic sector towards ensuring that it becomes vibrant and thrives. This is anchored in the necessity to re-assert the transformative and developmental mandate of public entities and SOEs. Equally important is the development and provision of adequate support for collective forms of ownership, including building a successful and growing co-operatives sector and the solidarity economy.

The neo-classical propaganda that ‘perfect competition’ results in the capitalist market, with capitalism left to its own devices, yielding a long-run set of prices that equilibrate supply and demand, market forces allocating resources efficiently, and participants receiving incomes commensurate with their efforts, has been discredited by its gross deficiencies. This fact is massively documented in the true course of history and literature. There is therefore no need to attribute it to a single or few historical events or sources. Economies organised by the economic ideology of the individualistic private profiteering agenda produced crises and never served all the people. In this regard history is littered with booms and bursts, depressions and recessions, among other consequences. The global economic crisis which broke out in 2008 first in the United States is yet another historical event of material evidence.

The masses of the people are condemned to languishing in persisting class inequality and deepening economic exploitation, associated retrenchments and unemployment, while the massive amounts of productivity gains – of the wealth produced under the economic regime of neo-classical orthodoxy and its myopic neo-liberal agenda, for instance – are accumulated by private profiteers. It is unjust to pursue the right-wing economic ideology in the name of all the people, and worse to do so through ascendency to key levers of state power achieved through decades of liberation and social emancipation struggle and entrusted on the ballot by the broad masses expecting a different programme. Needless to say the ANC must ensure that policy direction in government is consistent with its self-characterisation in its Strategy and Tactics document as ‘a disciplined force of the Left’ (based on the real, progressive and revolutionary meaning of the Left). The Alliance as a whole and the historical constituency of our struggle equally matter.

The National Treasury paper does not critically reflect on the implications of its conception of ‘investor confidence’ for our democratic national sovereignty. If left to prevail, the neglect will deepen the exposure of the economy to more vulnerability and volatility on a whim of ‘investor confidence’. The consequences for our democratic national sovereignty will be unpleasantly serious. The economy will be left to the sentimentality of largely unregulated market forces, to which, in addition, the sovereignty of our policy space will be subordinated.

It is undeniable that our current situation, like that of many countries, makes it necessary to reach out to investors. However, this has to be guided by mutually beneficial outcomes. What is completely undesirable is to subordinate our democratic national sovereignty to sections of individuals or to allow them to effectively or otherwise usurp our policy space by means among others of their prescribed policy regimes.

Related to the problem identified above, one of the general hallmarks of the National Treasury paper is that it seeks to elevate the assumptions or reforms it is pushing without looking at their disadvantages.

The emphasis given by the National Treasury upon the neo-liberal notion of opportunities, as if that is a panacea for economic problems, both micro and macro, is one of the problems with its paper. What the notion fails to acknowledge, especially in the context of South Africa, is the need for a more radical approach that takes into account unequal conditions and focuses on equality of outcome. A failure to take our historical, social and economic structural conditions and persisting legacy into account is, and will continue to be, highly problematic for the overwhelming majority of the formerly oppressed.

Furthermore, it is not clear what the employment of the sweeping trickle-down claim that high growth rates always increase the tax base and lead to increased social spending seeks to achieve, especially asserted to support assumptions for a not quite clear combined long-term (i.e. a 10-year) growth rate average of only 2.3%. Nonetheless it does not follow that high productivity always concomitantly leads to, as also claimed in the National Treasury paper, inequality reduction and critical growth-enhancing interventions such as productive infrastructure or quality education and skills training. The fact that growth does not automatically reduce inequality and lead to the achievement of broader social transformation objectives, depending on distributive and redistributive frameworks, including the tax regime, is well-documented. In the realm of private profiteering, growth is in fact treated as synonymous with profit-growth, on the on hand, while labour's share of income and policies aimed at distributing and redistributing wealth and income in an equitable/fair manner are attacked or suppressed, on the other.

The National Treasury paper has the reduction of inequality as one of its stated goals. However, this is prefaced by the orthodox trickle-down growth notion. We return, at the later stage, to the relatively high growth rates South Africa experienced during the pre-crisis period of 2004 to 2007, save for highlighting at this stage that there was a minimal effect on a living wage.

The nature of the problem, persisting untransformed structural economic features and endemic economic crisis

One of the complications in the National Treasury paper lies with what it identifies as the roots of low growth in South Africa, and in subordinating transformation and other economic and broader social transformation and development objectives to growth. Our country's economic problem is a result of systemic, structural and historical factors, including the following key causes and drivers.

Untransformed colonial features of the economy and immanent crisis of the capitalist system

Our economic crisis is reflected in structurally high levels of inequality, unemployment and poverty, as well as the crises of social reproduction and increasing social insecurity.

According to Statistics South Africa's 'Quarterly Labour Force Survey' released on 30 July 2019 (StatsSA, 30 July 2019), South Africa has an unemployed population of 10.23 million active and discouraged work-seekers combined.

'Subjective Poverty in South Africa: Findings from the Living Conditions Survey 2008/2009 – 2014/2015' released by StatsSA in 2018 (StatsSA, 2018) indicates that poverty remained high in South Africa post-1994. According to StatsSA (2018) 35% of people lived in households that were perceived as poor in 2015, while 33% of households were perceived as poor. What this means is that poverty remains entrenched in South Africa, despite the post-

1994 social programmes benefitting millions of our people, such as the commendable expansion of access to housing ('RDP houses'), household electricity connection, clean drinking water, education (at all levels), social grants and healthcare.

Ingrid Woolard highlights South Africa's high inequalities in 'Why South Africa should seriously consider taxing its wealthy citizens' published by the Conversation on 29 April 2019. The article is an edited extract from a chapter authored by Samson Mbewe, Woolard and Judge Dannis Davis in the book titled The state of the nation: poverty and inequality: diagnosis, prognosis and responses by Soudien, Reddy, and Woolard (2019) published by the Human Sciences Research Council. As Woolard points out, wealth inequality in South Africa is unacceptably high:

> ***'…with Gini coefficients of 0.93 in 2010/11 and 0.94 in 2014/15, it is also not reducing. Wealth inequality is much higher than income inequality (which has a Gini coefficient of about 0.67) and significantly higher than global wealth inequality.***
>
> ***In 2015, the wealthiest 10% of South Africa's population owned more than 90% of the total wealth in the country while 80% owned almost no wealth. These findings resonate with more recent findings documented in reports produced by Oxfam (2018) and the World Bank (2018).***
>
> ***There's a clear racial dimension to this inequality with an average African household holding less than 4% of the wealth held by an average White household.***
>
> ***It's a challenge to economic development when the bottom 80% of the population own no wealth…'***

South Africa is also faced with a crisis of social reproduction – simply put, the increasing inability of those affected by economic inequality and exploitation, unemployment and poverty to make ends meet. The high rates of criminality and violence, including gender-based violence underpinned patriarchal attitudes, are in part a reflection of the crisis of social reproduction or its consequences (if not both). Associated with the problem is a high level of social insecurity.

South Africa's real gross domestic product (GDP) has never recovered to the pre-crisis annual growth rate average of the pre-crisis period of three years from 2004 to 2007. As stated in the 'South African economy: Overview of the trends since 1994', released by the Industrial Development Corporation (IDC) in December 2013, our economy 'recorded its fastest growth rates since the 1960s over the period 2004 to 2007, with real GDP growth rate averaging 5.2% per annum' (IDC 2013: 1).

But what are the underlying systemic causes and drivers that reproduce these economic outcomes?

The National Treasury paper is devoid of a proper analysis of the impact of the crisis which broke out in 2008 first in the US, as well as its aftermath on South Africa's economy. Yet it is overwhelmingly clear that the country's economy has not recovered to its pre-crisis real GDP growth rate average of 2004 to 2007 or annual peak during the same period.

In its diagnosis of the South African economy, the SACP, in a discussion document titled 'Going to the root' (SACP 2014), points to the problem of insufficient or lack of structural economic transformation post-1994. Combined with the aftermath of the global economic crisis, the post-1994 insufficient or lack of structural transformation to fully develop our national economy and rid it of colonial features, under-development and uneven development, forms part of the underlying reasons why the economy is facing serious challenges and multiple crises today. Without going to the root and advancing structural transformation, we are unlikely to address the problems on any sustainable basis, if ever.

By design, the South African economy was inserted within the capitalist world economic regime in a semi-peripheral location. This combined external and internal dimensions of uneven development, internally comprising a small productive base, especially manufacturing, and largely characterised the colonial features of a relatively under-developed economy significantly dependent on raw materials exports and reliant on imports of finished products. The global economic crisis that broke out in 2008 disrupted, among other economic trends, what was clearly a global minerals commodity boom.

South Africa's 2004 to 2007 real growth rate average of 5.2%, and its associated annual real growth rates, were by no small measure driven by the primary commodity super cycle (2003/4 until the outbreak of the crisis). South Africa could have done better, nevertheless. As the IDC points out in its overview of the South African economy, the country's minerals production 'sector did not fare as well as those of its peers during the commodities boom period' (IDC 2013: 5). The assessment identified three factors that held back the country's mining performance in relation to the potential it could have reached. Two are worth underlining, namely insufficient supporting infrastructure for mining development and an eroding skills base.

The global economic crisis severely impacted demand of mineral raw materials, which was by and large overseas-driven. That this saw the international prices of key minerals plummet in dollar terms is well-documented. For example, the international prices of iron ore, platinum, gold and coal – four of South Africa's top five mineral products – were also affected. The aftermath of the global economic crisis included a slowdown or descent to 'a new normal', lower growth rates compared to the pre-crisis period, in but not exclusively major mineral export markets where the raw materials were, and are largely still used in the production of finished products. Compounding the situation for primary commodity exporters such as South Africa was the aftermath of over-production. This included a global glut of steel.

The eruption of the global economic crisis and unravelling of the commodity super cycle exposed the fact that the colonial features of the structure of the South African economy largely remained untransformed. There has been no epoch-making change since then. It is pretty obvious that little will change unless South Africa develops its own domestic productive capacity and develops adequate support for constituent capabilities.

Another significant contributor to South Africa's 2004–2007 real growth rate average and its associated annual growth rates was public infrastructure development and its increased contribution to the corresponding fixed investment. The IDC aptly summarises this fact thus:

> ***'The expansion of a country's economic and socio-economic infrastructure is a prerequisite for sustainable economic growth and development, with government and public corporations being key players in this regard. On average, fixed investment activity has been fairly strong over the past 20 years, having recorded an average annual growth of 6.2% p.a. [per annum]. The period 2003 to 2008 witnessed a substantial acceleration in fixed investment spending towards an average of 12.2% p.a. Looking at the past decade, real capital outlays by the electricity sector topped the rankings, with an average annual growth of 20.7%, followed by the transport, storage and communication sector (10.9%).***
>
> ***'In both instances, the strong growth was significantly underpinned by the multi-billion rand public sector infrastructure roll-out. State-owned companies, particularly, Eskom and Transnet, have made a substantially higher contribution to overall fixed investment in the country, as reflected by the rising share of public corporations to overall fixed investment, from 10% in 2001 to almost 22% by 2012, in real terms. Public corporations recorded strong fixed investment growth of 16% p.a., on average, over the period 2003 – 2012, as substantial infrastructure investments were made to expand the capacity and efficiencies of the energy and transport sectors. Furthermore, investment spending by general government on economic and social infrastructure also registered robust growth of 7.2%, p.a. over the same period. This was significantly higher than the 3.2% average annual growth recorded between 1994 and 2002.' (2013: 13-14)***

The positive role of infrastructure development to economic transformation and development cannot be overemphasised. The holding back of South Africa's mining sector performance, highlighted above from the IDC (2013), points to what happens to economic activity as a result of insufficient supporting infrastructure development. It follows that the absence of infrastructure development will result in greater adverse impact on economic performance, transformation and development.

Private-profiteering restructuring, deepening labour exploitation and super-exploitation of labour from forced migration conditions.

Furthermore, restructuring, driven by private profit interests and therefore underpinned by profit maximisation and private capital accumulation as the overriding objective, and aim of competitiveness, has adversely impacted the working-class through retrenchments and a 'flexible labour market'. The latter comprises among more exploitative practices casualisation, labour brokering and perpetual temporarisation of employment.

The increased shift from regular, permanent or indefinite employment relationships characterised by relatively better conditions and some benefits has adversely impacted labour's share of national income in various ways. The restructuring has resulted in retrenchments, and therefore in an increase in retrenchments occasioned unemployment and a rise in precarious or irregular employment relationships characterised by relatively high insecurity and lower wage levels, and generally without benefits. This has surely contributed to the entrenched inequality and poverty affecting the working poor, the retrenched, as well as the unemployed in general.

In addition, forced political and economic migration background conditions of the labour force from the Southern African region and other parts of our continent have landed the affected workers into the hands of greedy private profiteering interests in our country. The unscrupulous employers have converted the migrant workers into a reserve of super-cheap labour, taking advantage of their situation.

The super-exploitation of the migrant workers is one of the levers through which the employers exert a downward pressure on wages and pit the migrant workers against their South African counterparts in a race to the bottom, taking advantage also of the persistently high unemployment conditions in South Africa. In this way the unscrupulous employers are the active organisers of xenophobic reactions by the minority of rearward sections of South Africans. Both must strongly be consistently condemned, and their tendencies must be stopped. Labour law and employment practices review is especially required to eliminate the super-exploitation of migrant workers.

Institutional weaknesses

Although it can indeed be correctly argued that institutional weaknesses have hampered the economy, it cannot, however, be argued in the absence of causal and correlative linkages that this is a primary holding force on the economy.

Labour's share of national income and social dialogue gains

An offensive on labour's share of income, social dialogue and collective bargaining achievements

The SACP resolutely rejects the OECD prescription for South Africa to weaken social dialogue parameters, in this regard particularly collective bargaining. This prescription runs counter to the spirit of the Thuma Mina campaign, and the need for broader democratic social compacting as led by President Cyril Ramaphosa. By the way, no social compact will likely succeed in South Africa without an explicit democratic involvement and contribution of, and role played by labour. The SACP therefore dismisses the idea, codified in the National Treasury paper, to roll-back the legally recognised extension of collective bargaining agreements.

The National Treasury paper problematises the exemption application requirement aimed at ensuring fairness and compliance with the legislated national minimum wage. The paper propagates the perspective of the employers who do not want to comply with the national minimum wage, and without representing and any regard to the perspectives of the workers. For the workers, the exemption application requirement is a protective device against deepening exploitation and abuse by greedy or unscrupulous employers. This approach is to be found in sectoral collective bargaining agreements as well, and is important to the national imperative of advancing towards a living wage for all workers as the ANC-headed Alliance commits in its May 2019 election manifesto.

It is a fact that unscrupulous employers want to privately accumulate virtually all production income and leave the labouring force with absolutely nothing except below minimum wages and below social floor conditions if not the minimum of minimum conditions. This is one of the reasons why the greedy employers do not want to produce proof in the form of verifiable financial statements for scrutiny when they claim that they cannot afford to pay wages from the very income generated by workers' labour. The SACP denounces the attack on the evidence-based exemption application requirement.

The SACP further rejects the idea that wages are responsible for entrenching inequality and rising unemployment in South Africa.

For the record, in its own earlier position paper entitled 'A National Minimum Wage for South Africa', the National Treasury in fact underlines that there is an 'inextricable link between low levels of wages, high unemployment rates, the great number of people living in poverty, and the massive inequality in South Africa' (2016: 7). In addition, there can be no doubt that these factors have a countervailing effect against inclusive growth. At that time, our population was 55.9 million, of which 29 733 210 people lived below the poverty line [In this regard it is important to note that our population has since increased to 58.78 million in 2019, according to the 'Mid-year population estimates' by Statistics South Africa (2019)]. The National Treasury accurately highlighted that over 51% of the people in our country were living on less than R1 036.07 per month in 2016. The following harsh conditions the workers lived in were further underlined:

> 'The working poverty line has been estimated to be approximately R4,317 in 2016. Over 6.7 million people earn

less than R4,000 a month. Over half of the workforce in South Africa earns below R3,700, and 4.6 million people don't even earn R2,500 per month. If you were supporting a family of five, that R2,500 would only cover your minimum food requirements.' (National Treasury 2016: 7)

The National Treasury's '…economic Strategy for South Africa' has the effect of turning the above analysis on its head through its offensive on wages, national minimum wage exemption application requirement and extension of collective bargaining agreements. It should be noted that the national minimum wage that was finally legislated to come into effect in 2019 is less than the figures captured above, namely the 2016 working poverty line of R4 317, the R4 000 that 6.7 million workers were paid per month and the R3 700 over half of South Africa's workers were paid in 2016. Moreover, not all workers covered by the legislated minimum wage of R3 500 are paid the amount. There are categories of workers who receive less than the national minimum wage due to exemptions.

Related to the above, the falling wage share of GDP in South Africa is documented. In Wages, Profits & Unemployment in post-apartheid South Africa, Niall Reddy (2014) makes use of data from StatsSA to highlight the fall in the wage share of GDP. This is depicted in Figure 1 below.

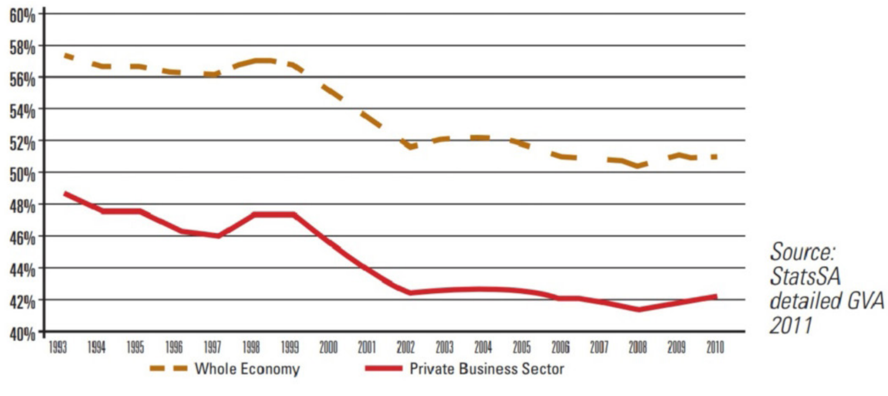

Figure 1: South African wage share of GDP, 1993 - 2010

The same dataset is discussed in 'Unpacking labour's declining income share: manufacturing, mining and growing inequality' by

Philippe Burger (2015) of the University of Free State. The share of labour remuneration in South Africa's gross value added (GVA), excluding agriculture, was 57% in 1993. This fell to 49% in 2008 before improving slightly, to about 53%. If manufacturing, which accounted for 11% in 2013, is excluded, it clearly appears that there was no improvement in the share of labour remuneration in our country. As Reddy (2014) concludes, labour's share of GDP fell from 57% in 1993 to 51% in 2010. The biggest fall occurred during the period 1998 to 1999.

In regard to labour productivity, Reddy (2014) underlines the key point that during the 18 years from 1994 to 2012 labour productivity in South Africa rose by 72.9%. In this regard at least two interrelated key points can be discerned in relation to the fall in labour's share of national income during the corresponding period. Firstly, the argument that employers, either voluntarily or automatically, share productivity gains with workers is dislodged. Secondly, one of the key drivers of inequality is underlined, that is accumulation of production income and productivity gains by employers through profit. Related to this, it is important to note that the wage share in the private sector, shown separately in Figure 1 above, is significantly lower than in the whole economy, meaning that the non-profit public sector lifts labour's share of national income.

It is equally important to note that the labour share of national income, as depicted above, includes remuneration going to executives as well as to top, senior and middle managers, and also to professionals and other high levels or high income categories. In its own paper, relying on 'Wages and Inequality in South Africa: 1994-2011' by Wittenberg, M. (2014), the National Treasury notes that 'Wages for those at the upper end of the wage distribution (the 90th percentile) increased substantially relative to median wages: from 2.7 in 1994 to around 5 by 2011' (2019: 14). As Reddy (2014) notes, the gap between the top 10% and waged workers has grown over the period, implying that the wage share of the lower strata of the workers fell more steeply than the aggregates depicted in Figure 1 above. The millions of rand and increases pocketed by top executives in South Africa are documented.

A different report produced by the International Labour Organisation in 2018 (ILO 2018), titled 'Global Wage Report 2018/19', states that the period 2012 to 2016 was a phase (for the downtrodden) of mostly zero wage growth in South Africa. The situation changed thereafter, but only with a slight positive improvement, during the period 2016 to 2017. The failure of the National Treasury to unpack the trends of labour's share of income versus profits since 1994 has done a huge disservice to producing a sound explanation of the underlying driver of inequality in South Africa.

It would have been proper for the National Treasury to disaggregate the wage share of national income and comprehensively compare its dynamics between the various strata, including executive pay, high and middle income categories, and the masses of the downtrodden. Propagation of draconian policy attacking wages will, if successful, inevitably contribute to rising inequality and persistent mass poverty in favour of a few, the rich, whose source of income is profit, and those belonging to high income categories. It will further countervail demand – with the effect of subduing production and in this regard also employment creation – and the very notion of 'inclusive growth'.

Labour's share of income and ANC-headed Alliance May 2019 general election manifesto

Repression of worker income, rolling back of exemption application requirement designed to ensure compliance with the national minimum wage, and scrapping of the extension of collective bargaining agreements stand to inevitably increase inequality and impugn the bona fides of the ANC. The same will apply to the integrity of the ANC-headed Alliance as a whole, in the absence of any intervention to ensure that what we are saying in the ANC May 2019 general election manifesto is practically elaborated and carried forward in government policy.

With regard to the national minimum wage, we commit ourselves in the manifesto as thus:

> 'More recently, we introduced unprecedented legislation in

South African history, the National Minimum Wage, which will improve the wages of at least 6 million workers who are currently being paid below the national minimum wage level of R20 an hour. This National Minimum Wage forms part of the broader reforms ***aimed at achieving a living wage*** for most South Africans.'

On this same score, we further commit ourselves to:

'Roll out the implementation of the National Minimum Wage to cover workers in domestic work, farming and forestry and other vulnerable sectors and ensure effective compliance.'

The offensive that comes across in the National Treasury paper on wages compelled us to place emphasis, above, on the national minimum wage as just a *'part of the broader reforms* ***aimed at achieving a living wage'***. If it is to be a strategy for inclusive growth, the paper has to be revised to reflect the perspectives of, and address the plight of the working-class. To this end it must categorically push compliance with the national minimum wage and outline concrete policy steps towards a living wage, as opposed to effectively rolling back our collective manifesto commitments.

Education, training and tertiary qualifications importation

Education and training entry-point and the national crisis of unemployment

The entry point in the National Treasury paper in relation to education and training is the foundation phase. There can be no doubt that our education system needs to be improved at all levels, including the foundation phase. However, the pressing reality is that South Africa is in the midst of an unemployment crisis affecting 10.23 million active and discouraged work-seekers combined. These are people falling in the working age population of 15 to 64 years – these are not crèche-going children or foundation phase learners. The crisis requires urgent attention on all fronts, including in education and training, directly on the unemployed. An appropriate economic policy strategy should be guided by an assessment of their direct education and training situation.

Accordingly, it will put in place adequate financial and other forms of material support to both upgrade their employment prospects and reposition them to start worker-owned initiatives, such as co-operatives, and thus become their own employers.

Tertiary qualifications importation

The National Treasury in its paper opts for the pursuit of immigration of individuals with tertiary qualifications as part of its education measures, instead of pursuing adequate education and training financial support. While it is not wrong in principle to accept individuals from abroad with recognised tertiary qualifications, there are weaknesses with building dependency (albeit presented as a short-term measure) on the qualifications importation. Firstly, such dependency has the effect of discouraging active government engagement in developing pivotal or 'scares and critical' and high-end skills both for the unemployed and employed South African workforce. The unemployed, both active and discouraged work-seekers, require greater and in fact even more urgent attention, perhaps more than ever before, given the structural unemployment crisis they find themselves locked in.

Secondly, building dependency on tertiary qualifications importation runs against the primary object of the Skills Development Act, which is to develop the skills of the South African workforce. Thirdly, the approach fails to take into account the need to upgrade the skills of the South African workforce in key technical, vocational and professional areas – pivotal, 'scarce and critical' and high-end skills and knowhow. Fourthly, it lacks an appreciation of the necessity for a proper state-led national planning in general and, in this instance, in education and training in particular. Last but not least, the notion lacks an appreciation of the central importance of developing domestic productive capacity, including through a proper emphasis on, and adequate support for education and training.

Cut in education and training financial support

The problems highlighted above are confirmed, and in addition compounded, by the attitude the National Treasury displays towards higher education and training. In a parallel process, an austerity campaign within the medium-term expenditure framework (MTEF) for the period 2020 to 2023, the National Treasury's initial considerations included cuts in higher education and training financial support. Table X below reflects the reductions.

Table X: MTEF cuts in higher education and TEVT financial support

Item	2020/21 (R-bilion)	2021/2 (R-billion)	2022/3 (R-billion)	MTEF Total (R-billion)
National Sutdent Financial Aid Scheme (NSFAS) – (University and TVET bursaries)	5.7	6.0	6.3	18.0
University subsidies	5.9	6.2	6.5	18.7

The claim made by the National Treasury in its paper – that education and addressing skills constraints in the economy are priorities, is contradicted by its very conception of the above MTEF cuts in education and training financial support. It is, to that extent, unsubstantiated and cannot be relied upon. Compare the approach to the commitments the ANC-headed Alliance made to our people in the May 2019 general election manifesto. The ANC developed the manifesto in consultation with all Alliance components, and which in turn endorsed the manifesto and took it to the people to seek and mobilise electoral support for the ANC.

The May 2019 ANC-headed Alliance Manifesto commitments on education and training.

Through the manifesto, the ANC-headed Alliance commits to increasing support for universities and TVET college students especially from poor, working-class and 'missing middle' households that cannot afford student fees. We accordingly commit that by 2024 all undergraduate students from these backgrounds will be fully covered by the NSFAS. We further commit to prioritise skills development, which we say we will make the heart of all our plans, and to enhancing the effort to strengthen higher, technical and vocational education and training. In this regard, we commit to ensuring that TVET and community colleges are adequately funded and respond to the country's skills needs and the national imperative of unemployment reduction.

Last but not least, as already stated, we recognise, in the manifesto, that our education and training system still needs radical improvements, including a focus on improving quality, hence the indispensible necessity and commitments for increasing and adequately supporting it. It is very clear from the above that the National Treasury is moving in a diametrically opposite direction.

Spatial inequality, land reform and uneven development

The issue of spatial inequality is long-standing, but the suggested remedies will not address the problem. What is suggested in the paper is more of the reform of the labour-movement patterns already existing in South Africa, with these patterns made more efficient but further entrenched.

South Africa, rather, needs systematic elimination of uneven development, and decisive land reform. This should include resolute land redistribution and adequate material, education and training, and technical support, guided by the principles of the Freedom Charter to pioneer productive land use. Parliament has an agreed-upon land reform process which must be followed through.

Not just a capable state, but a capable democratic developmental state

It is unclear how 'a new social compact' between government and the private profit sector, and the last to be mentioned 'other social partners', will lead to a capable state. Our ANC-headed Alliance perspective of the transformation of the state is that of building a capable democratic developmental state. It is unclear why the National Treasury chose to eliminate the principles democratic developmental from the capable state that we seek to achieve. This elimination is problematic to say the least. It is unclear why the building of a capable state necessarily requires a social compact. Moreover, the reference to 'a new social compact' presupposes that we have a pre-existing or old social compact.

In addition, the National Treasury explicitly mentions the private sector and government in its conception of its 'capable state' 'new social compact' partners. The exclusion of an explicit mention of labour as well as communities and emphasis on participatory democracy is equally problematic. This is not a mere oversight but an ideological posture running through the National Treasury paper, which is embedded in private profit interests. Embedding the state in, and aligning government with, private profit interests will be a tragedy for the broad masses in our class divided society. It will result in increased private profiteering influence on government policy direction and implementation. Notably, this is an entry-point for corporate-capture of the state.

The idea of 'a new social compact' comes across as simply a vacuous concept intended to defer demands for more effective state intervention, including in building a stronger and more capable democratic developmental state which advances and expands democratic public control.

Neo-liberal orthodoxy and macro-economic conservatism

The macro-economic no-change or more of the same approach of the National Treasury paper leaves South Africa in the same situation in which the economic problems it seeks to address developed.

Under the impact of neo-liberal orthodoxy, the South African Reserve Bank focused on the policy of inflation targeting mostly in a conservative way, and as if it is virtually its sole mandate, with a target-band of 3% to 6%, of late effectively the mid-point between the two. Clearly run-away or excessive inflation would have an extremely negative impact on the working-class and poor in our country. But what is 'excessive'?

For the globally (and nationally) hegemonic financial capitalist sector (and its ideological adjuncts), even moderate inflation is disliked for the simple reason that it devalues rentier profits by eroding the value of interest payments due on credit extended to the productive sector or the public and publicly/state-owned sectors. Striking the appropriate balance between staving off excessive inflation while not choking off productive investment requires professional technical modelling – but this requires the jettisoning of myopic neo-liberal orthodoxy.

Our Constitution states that *'The primary object of the South African Reserve Bank is to protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic.'* Neo-liberal advocates only get as far as the first half of the provision. The Constitution, however, categorically directs that protecting the value of the currency is NOT an end in itself – it must lead to the Republic achieving balanced and sustainable economic growth. To this day, South Africa has never achieved balanced and sustainable – since at least the adoption of the Constitution, and the monetary policy regime followed by the Reserve Bank. It is therefore entirely legitimate (and constitutional) to debate whether the rigid application of the inflation target regime followed by the Reserve Bank is contributing to the grossly imbalanced, unsustainable and low growth reality into which we are seemingly locked.

A floating exchange rate has been in place in South Africa for at least two decades, and its efficiency in contributing to the economic outcomes the country needs is not being evaluated in the National Treasury paper. Related to this, in addition, the paper does not offer an evaluation of exchange rate and interest rates policies and practices to give effect to the standing ANC-headed Alliance declaration that requires both the exchange rate and interest rates policies to be calibrated to take account of industrial policy.

Neither does the paper give effect to the commitment the ANC-headed Alliance made in its May 2019 general election manifesto with regard to macro-economic policy framework. The manifesto categorically states that the ANC-led government will align macro-economic policy framework to support the objectives of the second radical phase of our democratic transition and the other commitments we make in the manifesto. The National Treasury chooses a contradictory path in its paper. This, if allowed to prevail, will contribute to the destruction of the integrity of the ANC, and by extension the ANC-headed Alliance as a whole (especially should the other Alliance components not mobilise publicly to ensure consistency with the manifesto).

Network industries

The measures pushed by the National Treasury are driven by the OECD (2017a; 2017b) and some, for example, on Eskom, are driven by the IMF (2018). The approach forged by the measures is based on the trickle-down orthodoxy and centred on 'opening up' the publicly-owned economic sector to private profit exploitation and associated capitalist market share competition. The paper is pushing the private profit sector ideology of privatisation or auctioning off public assets – *owned on behalf of the people as a whole by the state* – to private profiteers. These include the broadband spectrum and Eskom coal-fired power stations. This approach, which lies at the heart of the National Treasury's 'modernizing network industries', is highly problematic, to say the least.

Privatisation or auctioning off public resources (the assets of the people as a whole) to private profiteers and their exploitation of public enterprises is not synonymous with the real productive capacity upgrading definition of modernisation. The latter requires investment in public productive capacity upgrading, including investment in infrastructure, related technology, process and, skills and knowhow, among others.

The push for the sale of Eskom coal-fired power stations is also driven through the co-option of the international commitment to reduce our national carbon footprint. However, to that extent, this argument is nothing but nonsensical: 'Auction off Eskom coal-fired power stations to the highest bidder in order to come back the other way around, through a new power purchasing entity created from the unbundling of Eskom, to buy electricity from the very same coal-fired power stations but this time owned privately and generating electricity primarily for private profit sale.' This will obviously not reduce our country's carbon footprint. It will instead drive coal-fired electricity generation primarily for private profit, rather than for a national developmental purpose.

There is no reason in principle why Eskom or the state at large should pursue or be locked into buying electricity from private profit companies ('Independent Power Producer' or IPPs) that does not comply with the imperative of a just transition to renewable or cleaner sources of energy and reduction of our national carbon footprint. In the same vein, there is no reason in principle why government, if serious about reducing our national carbon footprint, should allow private profit fossil fuel-fired electricity generation.

Therefore, Eskom's capacity to produce coal-fired electric power should be retained until exhausted, while simultaneously exploring innovation, research and development to use coal in a cleaner way and repositioning Eskom through new infrastructure and capacity development to serve as the mainstay of renewable and cleaner energy production in South Africa based on a developmental mandate. To this end, alternative funding must be explored concertedly, taking into account the historical conditions, development plight and overall characteristics of our country, rather than abandon the sector as if it is a nonissue.

Furthermore, any attempt at pushing restructuring at Eskom that will lead to privatisation and retrenchments in the midst of the persisting crisis of high unemployment and, worse off, without offering workers decent work alternative placements, is a recipe for serious problems. The SACP is strongly opposed to the pursuit of such a path and to unilateral restructuring approaches. The terms of the transformation of Eskom must be negotiated on behalf of the workers with their trade unions, and with other stakeholders and all whom it may concern in terms of our constitutional democracy, with the aim of seeking consensus.

Electricity/energy – like ***WATER***, is very fundamental in our country in historical context. In fact access to water, along with food, health care and social security are, in terms of our Constitution, Section 27 human rights. The state has the ***INALIENABLE*** duty to ensure that everyone has access to these rights.

The Health Market Inquiry process highlighted some of the historical injustices that have occurred as a result of access to human rights, in this instance health care, being controlled by private profiteering interests and associated monopolies. The National Health Insurance policy process, which is aimed at ensuring access to quality health care for all as a Section 27 constitutional right, actually seeks to correct those and other historical injustices in health care. The exploitation of social grants provision and social grants, including through corruption (which occurred as part of corporate-capture of state functions) is another example of what happens when access to constitutional rights is mediated through and handed over to private profiteering interests. There are many other examples.

It will be a travesty of justice to hand over or subject these fundamental services or constitutional rights to the control of the private profiteering logic of the market and its accumulation regime.

It is unclear in the National Treasury paper how granting third-party access to the rail network in South Africa is a solution to, or will solve the problems underpinning the country's rail network. The manipulation of the rail network by private profit interests and burdening of the state through upkeep costs with effective subsidisation of private profiteering exploitation of the network must be avoided.

As pointed out, shortly after the release of the National Treasury paper, the CEO of Telkom was compelled to come out and deal with the paper's deficiencies and errors regarding the SOE's network.

Macro-economic policy framework paradigm maintenance and the ANC-headed Alliance's May 2019 general election manifesto policy change commitments

In the manifesto we commit as follows:

> 'Our Macro-economic Framework, through fiscal and monetary policies, **will be aligned** to support the commitments made in this Manifesto.'

We do not commit the other way around.

Referring to the same point, and based on the interventions he outlines in the foreword of the manifesto, President Cyril Ramaphosa emphasises the same point:

> 'These interventions will be accompanied by the development of an appropriate macro-economic framework to support the transformation of the economy to serve all people.'

What is not done in the National Treasury paper must be done, in line with the manifesto. That is, a review of our macro-economic policy framework, including monetary, exchange rate and fiscal policies, and its alignment to support our manifesto commitments and the objectives of the second radical phase of our democratic transition. The objectives of the second radical phase of our democratic transition and the commitments we make in the manifesto should therefore take precedence, with macro-economic policy framework aligned to support them, as both President Cyril Ramaphosa in his foreword to the manifesto and the main content of the manifesto commit. This must be aimed at systematically eliminating the colonial features of our economy, under-development and geared towards achieving full development and diversification of national production. In this regard increasing localisation of the production of finished products, both for domestic consumption and exports, and thus manufacturing expansion and diversification, must be one of the strategic tasks and priorities.

The policy imperative for the mandate of the South African Reserve Bank to explicitly target employment growth must be implemented, in line with the manifesto. Our Constitution makes it clear that the powers and functions of the Reserve Bank must be determined by an Act of parliament and exercised or performed subject to the conditions prescribed in the Act. Amending the Reserve Bank Act is therefore the most effective constitutional way of ensuring that the mandate of the Reserve Bank explicitly includes employment growth targeting. The amendment should promote greater transparency and foster robust public accountability on employment growth targeting on the part of the Bank.

In the manifesto we commit to ensuring that the Reserve Bank, without sacrificing its primary object, pursues ***'a flexible monetary policy regime, aligned with the objectives of the second phase of [our] transition'***. This must be given practical expression in our national economic policy way forward.

When referring to the role of the Reserve Bank in the manifesto, we explicitly mention ***employment creation***, over and above economic growth – which, in line with the Constitution, must be balanced and sustainable. In contradiction, others want society to believe that the primary object of the Bank is limited to protecting the value of the currency. The truth is that the Constitution makes it clear that protecting the value of the currency must be ***'in the interest of'*** achieving 'balanced and sustainable growth' in our country. To that end protecting the value of the currency is more part of the means to an end rather than an end in itself. The problem is that the end, that is balanced and sustainable economic growth, was never achieved since our April 1994 democratic breakthrough and the adoption of the Constitution. This is evidenced by the persisting high levels of inequality, unemployment, poverty and uneven development.

The National Treasury paper is virtually devoid of the absolute necessity to drive and achieve transformation of the financial sector in South Africa as a key economic transformation and development imperative.

Inclusivity

It was not by accident that we explicitly mentioned ***employment creation*** in the manifesto when committing to ensuring that the mandate of the Reserve Bank explicitly includes pursuing ***'a flexible monetary policy regime, aligned with the objectives of the second phase of [our] transition'.*** Advances in production technology, process engineering, new methods of work, skills development and knowhow, and new ways of co-ordinating production make it possible to increase production output in a given productive activity with fewer workers than before and therefore without employing more workers. It is a fact that private sector bosses do retrench workers affected by productivity improvements. Those workers are declared redundant or 'redundancies'.

In order to succeed, employment creation programmes must specifically be targeted at achieving high impact, alive to changes in production, including changes in the composition of capital and their implications for employment. This is similar to the approach we adopted in the New Growth Path, which is best characterised by what we referred to as jobs drivers, implying an employment-led growth based on a set of productive activities. The approach was rolled back in the National Development Plan (NDP), which favoured the trickle-down notion of growth. This became an unresolved problem, which the National Treasury paper is compounding.

For the paper, nothing but growth is 'the starting point' – as if growth is not an outcome of, and thus does not result from a set of active productive measures that come first and produce it. Here our central thesis merits emphasis. Radical transformation of the base structure of our economy, to produce finished products, buttressed by domestic productive capacity building, expansion and diversification measures, and a fundamental change of ownership patterns, are essential for a qualitatively different growth path aimed at achieving real inclusivity.

Related to the above is another weakness in the paper. The assertions that 'Inclusive growth refers to a growing economy where benefits are shared broadly', and that 'In other words, economic growth must be accompanied by a reduction in inequality', are superficial without a concrete elaboration of a set of measures constituting strategies to ensure that the benefits of growth are indeed shared and this does in reality reduce inequality. The reference to competition, which boils down to competition between capitalist bosses (for the maximum) and workers (for the minimum) and to the associated competitiveness or building an economy that is globally competitive, does not necessarily constitute those strategies. This matter is further discussed below.

Growth can only be inclusive if it is indeed shared. That is, if its value is shared with labour as a productive, value creating force, rather than reserved for the private profit of the bosses against the background of labour income suppression. The question of distribution is too important to be left unattended, or to be considered in a manner that will serve to widen inequality instead of addressing the problem. There can be no doubt that the suppression of labour income in relation to profits will entrench rather than address inequality. Related to this, the assumption that capitalist bosses always re-invest the profits they privately accumulate is discredited by historical truth. The fact that private companies in South Africa have accumulated trillions of rands in profits without re-investing the money in the economy is well documented.

In August 2017, for instance, the University of Johannesburg's Centre for Competition, Regulation and Economic Development underlined that cash reserves in the hands of 50 largest JSE listed companies increased from R242 billion in 2005 to R1.4 trillion in 2016. This Industrial Development Research Project was, by the way, funded by the Department of Trade and Industry.

The National Treasury should have taken the research seriously. It should have gone to the root of the problem to disaggregate the real reasons for the insatiable accumulation of national income through profits without re-investment in the economy. Decisive policy measures are required in order to solve the problem of inequality on a sustainable basis, as opposed to pushing the ready-made, inequality-driving, neo-liberal ideological offensive against labour's share of national income.

Further, and in relation to the above, the National Treasury should have taken into account the fact that millions of workers in South Africa are trapped in an exploitative low wage employment regime.

Workers in labour-intensive sectors such as agriculture are, by the way, among those affected. Sectoral wage determinations, and in 2019 the national minimum wage, were put in place to alleviate the problem faced by vulnerable workers. It thus does not make sense to treat workers' rights and hard-won social dialogue achievements as synonymous with red tape. The SACP rejects attempts at stripping off workers' rights and exposing them to deeper economic exploitation in the name of inclusive growth.

There can be no doubt that wages under the colonial-apartheid era were very low. It was by design that especially black workers were mercilessly exploited in low wage employment. Black women workers further suffered from gender domination and marginalisation, over and above both national oppression and merciless economic exploitation. In this regard the National Treasury paper lacks an appreciation of the plight of the broad masses and a gender analysis. Neither does the paper put forward an ***income*** and ***wealth*** distribution strategy to address inequality, nor does it on this ground define what it means by inclusive growth vis-à-vis ***income*** and ***wealth*** distribution and, consequently, how that will be achieved.

The capable democratic developmental state we seek to build cannot take its cue from wage repressive regimes or consciously either reproduce or reinforce poverty wages in any particular way. It is even worse to propagate the repression of labour income, particularly the wages of the millions of South African workers trapped in low wage employment, in the name of inclusive growth. On the contrary, the capable democratic developmental state we seek to build must strive to eliminate the yet to be resolved legacy of colonial–apartheid era income inequalities and reverse its post-apartheid reproduction.

CHAPTER 4: IMPACT ASSESSMENT

Low employment creation and persisting crisis-high unemployment regime paradigm maintenance

The latest Labour Force Survey produced by Statistics South Africa (30 July 2019) shows that South Africa has 10.23 million unemployed active and discouraged work-seekers combined. The National Treasury paper states that its reforms (see Table 1 below) will produce additional 1.011 million employment opportunities in the next 10 years. What this means is that employment creation will remain very low while unemployment will remain persistently high both in terms of its narrow definition which excludes discouraged work-seekers and total/expanded/real definition which takes them into account. The total/expanded/real unemployment rate is structurally higher than narrow unemployment rate, which will not be brought lower than 26%.

Inconsistency and possible impact exaggeration

The paper presents an inconsistent picture of the impact of its micro-economic reform measures on economic growth.

Tables 1 and 2 below were sourced from the National Treasury paper as indicated. Table 1 reflects the National Treasury's 'Estimated impact on expenditure components of GDP growth' and Table 2 'Estimated impact on sectoral output, by scenario'. The data in the tables is 'Based on estimates from the Modelling and Forecasting Unit's SAGE model'.

Table 1: 'Estimated impact on expenditure of GDP growth' (Left Column)

Table 2: 'Estimated impact on sectoral output, by scenario' (Right Column)

Table 1: Estimated impact on expenditure components of GDP				Table 2: Estimated impact on sectoral output, by sector			
Component	**Short-term** Av.1-3 yrs (%)	**Med-term** Av. 1-6 yrs (%)	**Long-term** Av. 1-10 years (%)	**Sector**	**Short-term** (%)	**Med-term** (%)	**Combined long-term** (%)
Absorption	0.8	1.8	2.4	Agriculture, forestry, and fishing	3.8	5.0	5.0
Private sector	1.0	2.2	2.9	Mining and quarrying	-4.0	-4.9	-5.0
Fixed investment	0.7	1.7	2.2	Manufacturing	3.9	4.1	4.0
Gov consumption	0.5	0.7	0.9	Electricity, gas, and water	1.8	2.7	2.8
Exports	0.8	0.9	1.6	Trade, catering, and accommodation	4.3	5.2	5.3
Imports	0.8	0.9	1.8	Transport, storage, and communication	5.6	8.0	9.7
Gross Domestic Product at market prices	**0.8**	**1.8**	**2.3**	Finance, insurance, real estate, and business services	5.0	8.3	8.4
Additional employment (opportunities) (million)	**142**	**929**	**1.011**	Community, social, and personal services	2.7	3.4	3.6
Source: National Treasury paper (pages 60 & 61)				**What are the GDP** averages? Why they were not presented?	?	?	?

The 'Estimated impact on expenditure components of GDP growth' (Table 1) amounts to a combined long-term average of 2.3%. This is reflected in the row 'Gross domestic product at market prices' (Column: 'Long-term av. 1–10 years)'. The 'Estimated impact on sectoral output, by scenario' (Table 2) amounts to an inconsistent average, that is, 5% (Adelzadeh 2019). The National Treasury omitted the latter average in Table 2. Hence the question marks and the two questions in the bottom row of the Table 2: What are the GDP averages? Why they were not presented? The omission suggests that those who prepared the National Treasury paper might have become aware of the inconsistency, but nonetheless still released the paper publicly. To the extent that is the case then the conduct is insincere and unprofessional.

What the inconsistency points to is that, 'Clearly the sectoral growth projections of Table 2 are highly exaggerated, which means the proposed micro-economic policy measures will have much less positive impact on sectoral growth than reported in Table 2' (Adelzadeh 2019).

Declining share of investment and exports

The National Treasury states that the micro-economic policy measures pushed in its paper will attract higher investment and increase South African exports. In self-contradiction, the projections presented in the paper indicate that the share of investment[2] and that of exports[3] in GDP are expected to gradually decline on average in the next 10 years (Adelzadeh 2019).

Consumption-led growth

Table 3 below, which is based on the estimates presented in the National Treasury paper, shows that only private consumption spending is expected to grow while the rest of the other variables, namely fixed investment, government consumption, exports and imports are expected to decline, all on average over the long-term, that is in the next 10 years.

Table 3: Consumption-led growth

GDP (Expenditure side)	**Additional growth** (Av. Over 10 years)	**Share of GDP** (Growth due to the National Treasury measures)	
Private consumption	2.9%	0.6%	Positive growth
Fixed Investment	2.2.%	-0.1%	Negative growth
Gov consumption	0.9%	-1.4%	Negative growth
Exports	1.6%	-0.7%	Negative growth
Imports	1.8%	-0.5%	Negative growth

Source: Adelzadeh (2019)

2. Inv-GDP ratio growth (Av. 10 yrs) = Fixed Investment – Estimated impact on expenditure components of GDP growth 2.2% – 2.3% - 0.1% average growth over 10 years
3. Exp-GDP ratio growth (Av. 10 yrs) = Exports – Estimated impact on expenditure components of GDP growth 1.6% – 2.3% - 0.7% average growth over 10 years

What the figures show is that a significant proportion of the estimated 2.3% GDP growth is expected to come from the increases in private consumption. This consumption-led growth is very difficult to explain, in addition considering what the National Treasury in its paper purports will be a positive growth impact of its 'inclusive growth reforms'.

The stranglehold of austerity on the economy

In parallel to its paper under review, the National Treasury is pushing fiscal austerity path. In this regard Table 4 below highlights the amounts and distribution of the fiscal expenditure cuts of the austerity campaign initially considered for the medium-term expenditure framework (MTEF) for the period 2020 to 2023.

Table 4: Fiscal Austerity Campaign

Medium-Term Expenditure Framwork (MTEF):2020–2023					
Item	**2020/21**	**2021/2**	**2022/3**	**MTEF Total**	**MTEF**
	(R-bilion)	(R-billion)	(R-billion)	(R-billion)	av (% reduction)
Compensation of employees	58.0	71.2	88.8	217.9	66.8%
Goods and services	3.5	4.0	5.0	12.5	3.8%
NSFAS (University and TVET bursaries)	5.7	6.0	6.3	18.0	5.5%
Agricultural land holding account	1.0	-	-	1.0	0.3%
Social grants	10.0	11.5	12.0	33.5	10.3%
Municipal transfers	-	-	4.0	4.0	1.2%
SEZ programme	-	1.9	2.0	3.9	1.2%
Pubic corporations and private enterprises	1.0	-	2.0	3.1	0.9%
University subsidies	5.9	6.2	6.5	18.7	5.7%
Reduction of contigency and policy reserves	-	-	13.8	13.8	4.2%
Total spending	**85.1**	**100.8**	**140.4**	**326.3**	**100%**

The fiscal austerity campaign goes against the commitments the ANC-headed Alliance made in its May 2019 general election manifesto, for example, in regard to higher education and TVET training, as already discussed. This is very problematic, to stress the point already made. The austerity campaign, which is aimed at achieving a 'sufficiently large primary surplus', around 1% of GDP, 'as a means to stabilise the debt-GDP ratio', involves, as the initial amount reflects, cutting government expenditure by R326.3 billion over the next three years, with a provision to maintain a slightly lower expenditure growth rate thereafter.

The fiscal austerity campaign comprises lower than annual average inflation social grants adjustments, thus gradually reducing the real value of social grants. It also comprises a consolidated 10% to 12% state wage bill cut, 15% reduction in university subsidies over the next three years, and 15% reduction in university and TVET college bursaries over the next three years. While the amounts were subject to changes, or even a reversal in the period towards the presentation of the MTEF by the end of October 2019, it became necessary to include them in this response given the serious and contradictory implications the approach they are embedded in pose for various economic and broader social transformation fronts, including the very 'inclusive growth' the National Treasury says its paper is aimed at achieving.

CHAPTER 5: CONCLUSIONS

The conclusions presented in this chapter flow from the preceding review and engagement with the National Treasury paper. The text of the review and engagement already contain particular recommendations. The conclusions chapter either reinforce or make additions to the extent it is necessary. In addition the conclusions entail, where also necessary, pre-existing perspectives from working-class economic transformation and development campaigns, including in particular those led by the SACP, as well as from economic policy engagements within the ANC-headed Alliance.

Macro-economic alignment in pursuit of a people's economy, rather than an economy that serves the interests of a few

The National Treasury paper puts forward private profit sector interests on the one hand, and does not represent the views of the working-class on the other. This is also to be found in its conception of the character of the state that South Africa needs to build, as well as in its idea of a social compact to support that state. The paper refers to 'Delivering a capable state supported by a new compact between the government, private sector, and other social partners'. This formulation expressly excludes the important pillars *democratic developmental.*

Quite the contrary, what South Africa needs in the present period in relation to the transformation of the state is to *build a capable democratic developmental state*. These are not empty words. The principles *democratic developmental* are very crucial in relation to the nature and character of the state that South Africa needs to pursue in the present period, its processes and outcomes.

As reflected above, the National Treasury paper explicitly mentions the private sector in its conception of a capable state and a social compact that it proposes to support the said state. In this regard, the paper *actively excludes* an explicit reference to labour. To the extent labour is taken into account, it can only be implicitly assumed by an interested reader to be included in the last mentioned or by-the-way 'other social partners'.

The above highlights a characteristic class orientation and embeddedness of the National Treasury paper. The overwhelming majority of the ANC's electoral support is thrown under the bus. By the way, no social compact centred on the state in South Africa is likely to succeed without an explicit democratic involvement and contribution of, and role played by the working-class, employed and unemployed.

The ANC-led government must honour the commitments the ANC-headed Alliance has made to the electorate in the May 2019 election manifesto as drafted by the ANC in consultation with other Alliance components. We must remain true to history and truthful to the people, to the extent we do not want any further electoral decline. Increasingly questionable leadership integrity is among the subjective factors that contributed to the electoral decline of the ANC, over and above the adverse objective conditions, such as persisting high levels of inequality, unemployment and poverty (and in many ways associated with all these criminality, social insecurity and a crisis of social reproduction) that the masses of our country find themselves locked into. A further electoral decline has to be avoided, and so is questionable integrity both in government and the movement.

Therefore the entire progressive thrust of the manifesto must be elaborated in policy making in government, rather than rolled back.

For that cause, the SACP reiterates the strategic perspective, enshrined in the ANC 2019 election manifesto, of the absolute necessity to move our democratic transition on to a second radical phase. The Party accordingly puts forward the strategic national strategic imperatives aimed at achieving structural economic transformation and radically reducing inequality, poverty and unemployment, presented in this chapter.

The National Treasury paper is virtually devoid of its primary mandate of macro-economic policy – especially the ANC's own May 2019 general election manifesto commitment to align macro-economic policy framework to support the objectives of the second radical phase of our democratic transition and the other commitments we make in the manifesto. This point merits emphasis, as is the fact that the manifesto was drafted in consultation with, and accordingly endorsed by the whole of the ANC-led Alliance. Over and above that the manifesto was taken to the people with complete sincerity to seek their electoral support.

The National Treasury instead chose to focus more on the policy domains of other government departments. In this regard the paper goes into the realm of micro-economic policy to push the reforms, including codifying and domesticating prescriptions ('recommendations') first pushed for South Africa by the OECD as well as by the IMF ('advices').

There can be no doubt South Africa requires radical changes in the micro-economic policy sphere – *especially a high impact, comprehensive and coherent industrial strategy, including a robust digital industrial policy, and an innovation, research and development master plan, as well as adequately supported and supporting education and national skills development plan.*

The micro-economic reforms pushed by the National Treasury are, however, far from that. They are both inadequate, by and large, and fraught with problems (some of which are covered in the preceding chapters). Related to this point, the National Treasury states that its reforms, if implemented, will increase investment and exports, but its own model comprises a gradual decline in the GDP share of both investment and exports. Its parallel austerity campaign will also have a countervailing impact on the very same growth, let alone inclusive growth, that the National Treasury claims its reforms will generate.

Nonetheless, despite the importance of the radical changes definitely required in our micro-economic sphere, *it would be utterly twisted and amiss to advocate micro-economic policy reforms to solve macro-economic problems and crises.* Hence our collective manifesto commitment, as the ANC-headed Alliance, to align our macro-economic policy framework to support the objectives of the second radical phase of our democratic transition and the other commitments we make in the manifesto.

Financial sector transformation and alignment of macro-economic policy framework

1. The commitment to achieve financial sector transformation is spelt out in the manifesto. The sector is presently dominated by private monopoly comprising a handful of oligopolies. Its financial architecture and conduct do not serve a transformative and developmental purpose, and were in the first place not designed for that purpose. The central feature of the private profit-driven financial sector is that of financial exploitation of the people in pursuit of profiteering.

2. Transformation of the financial sector should include decisive measures to direct investment into the productive sectors of the economy, what we call *prescribed productive investment requirements* (or what others refer to as 'prescribed assets') to create decent work, grow employment and radically reduce inequality and poverty.

3. Measures to raise resources from the economy in order to support domestic productive capacity and broader national development, as well as to reduce inequality, should include a strong consideration to introduce wealth tax and sovereign wealth fund.

4. High interest rates do not benefit all the people. They make the situation in many households difficult, including through indebtedness, and are in many ways an economic countervailing factor. This needs to be looked at and addressed. Financial sector transformation should in this regard include the adoption of a developmental interest rates policy to support investment in productive activity. This should include a strong consideration to elaborate a policy of interest rates duality favourably differentiating developmental financing and productive investment/activities, on the one hand, from fuelling the ideology of consumerism, on the other. A policy of long-term moderate interest rates should also be pioneered as part of the developmental interest rates framework.

5. The banking/financial sector enjoys structurally lower

repurchase (repo) lending rates from the Reserve Bank, compared to the exorbitant interest rates regime the sector imposes on the non-banking/financial sector and households. For example, the compound interest rates regime the banks impose on home loans is astronomical, thus prohibitive and unsustainable for many households. This is one of the factors that reproduce and sustain the apartheid legacy of racial segregation, uneven development and stand in the way of non-racial integrated human settlements progress. The problem must be addressed directly together with the entire regime of the high costs of banking/financial services, including through a rigorous pursuit of a developmental state banking sector and a thriving co-operatives banking system. In this regard the following assessment and recommendations merit emphasis.

5.1. The Forbes' 2019 list of the world's largest companies comprises state-owned banks in the top ranks. This dispels the myth that the publicly-owned economic sector, by extension the publicly-owned banking sector, is inherently not viable and should not be pursued. The state-owned Industrial and Commercial Bank of China tops the list, while the state-owned China Construction Bank occupies the 3rd spot, state-owned Agricultural Bank of China the 4th spot, and state-owned Bank of China the 8th spot.

5.2. The myth is also dispelled by the fact that major economies in different global regions have substantial presence and robust participation of public banks in their banking sectors. This is one of their major economic development drivers and advantages. These countries include China, Germany, India and Brazil. Compare these countries to South Africa, whose banking sector is about 98% private and dominated by a handful of oligopolies. These countries, of course with the exception of South Africa, have their industrial policy woven within the public banks sector. In Germany, Europe's economic power house, there are, for example, over 385 properly functioning banks in the public savings bank sector *(Sparkassen)*, mainly localised, and over 875 co-operative banks *(Raiffeisenbanken)*, over and above regional banks

(Landesbanken) and so on. These are, by the way, part of the developmental banking sector. In most of the countries with significant public interests banking sector, the aim of but not exclusively the major (developmental) banks in this sector is to support investment in productive sectors, including infrastructure. This offers many advantages to economic development.

5.3. It is important to recognise that, like central banks, the other (including commercial) banks also create money through lending or credit extension. This lever of economic power is too important to be left in the hands of private profiteers (alone). The state has to build significant presence and robust participation in the banking sector, as part of our financial sector transformation, by building a publicly-owned developmental banking industry to both finance national transformation, including economic and social infrastructure and domestic production development. This should also be used to create a financial architecture and landscape conducive to economic development, and be aimed at improving the quality of life of the people.

5.4. The pursuit of the developmental publicly-owned banking sector should form part of the national imperative to emancipate our state, and SOEs, from the yoke of the private, especially but not exclusively foreign controlled finance capital. The publicly-owned developmental banking sector must not be underpinned or driven by the profit motive but by the imperative to *support investment in national transformation, development and domestic productive capacity*. It should be guided by a long-range plan, including developing and offering the state and SOEs developmental financing, that is, low interest rates-based financing. SOEs, such as but not limited to Eskom, Sanral, Transnet, and economic and social infrastructure (including but not limited to water infrastructure, rail, schools, clinics, etc.), can and should benefit from the approach. The process should include developing developmental financing for housing for the citizens.

5.5. The Chinese developmental state banking system with an articulation of a sectoral focus as, for example, reflected in the sectoral focus of China's state-owned banks in the Forbes' list of top global companies, should be looked at to draw lessons. South Africa should consider pursuing a similar model but based on its specific national features, historical conditions and the necessity to radically advance towards the greater goal of shared prosperity. In this regard, considerations should be made to transform the Development Bank of Southern Africa (DBSA) into a developmental deposit taking bank. All of these proposals require building strategic discipline as well as technical and professional capacity. This is in fact essential for the whole of our state organisation and publicly-owned economy, and must therefore be vigorously pursued.

5.6. Our Development Finance Institutions (DFIs) should be strengthened and properly refocused, based on the pursuit of our national transformation and developmental mandate. An assessment of the DFI sector should be conducted with a view of strengthening it and developing a proper structural articulation at all spheres of government.

5.7. *The developmental imperatives of the South African Reserve Bank*

a. The developmental imperatives of the South African Reserve Bank must be enhanced and spelled out more clearly. This should include expanding its mandate to explicitly include a dedicated focus on employment growth targeting. To this end it is worth underlining that the amendment of the South African Reserve Bank Act, in line with our Constitution, as has been discussed already, is crucial. This is the most effective constitutional way forward to give practical effect to the electoral mandate of the ANC-headed Alliance on the Reserve Bank, as enshrined in its May 2019 general election manifesto.

b. On this score, as it is on others, reliance on individuals without transparent, proper and robust public legislative, regulatory and accountability framework is, and will continue to be problematic. In the same vein, the regular consultation required between the Reserve Bank and the minister responsible for finance, provided for in the Constitution, must be anchored in proper and strict collective political mandating process – especially on the part of the minister as a public representative deriving their primary electoral mandate from the governing ANC-headed Alliance.

c. A consideration should strongly be made to include, as part of its developmental imperatives, the Reserve Bank directing concessional credit to finance productive investment and economic and social infrastructure development – on a developmental basis. There is no fundamental need to mediate this via the costly commercial/private profiteering intermediaries. The approach can therefore be implemented directly by the Reserve Bank, and/or while working tougher with the National Treasury and the Department of Trade and Industry (DTI), or through public DFIs such as the IDC.

d. A strong consideration should be made for the Reserve Bank to swap public debt held by major public investment institutions, for example, the Public Investment Corporation (PIC), by 'monetising it' – that is, by purchasing the public debt – on condition that the institutions direct the new cash in key productive/developmental investments. In addition, there is no reason in principle why SOEs cannot benefit directly from this approach. All these require very strict governance, management and administration framework to combat irregular, wasteful and fruitless expenditure as well as corruption.

6. South Africa must pursue a *thriving co-operative banking system and sector* for the benefit of the working-class, the overwhelming majority of our people, as an indispensible component of financial sector transformation. The ANC-headed Alliance

made a commitment to pioneer this direction in its May 2019 general election manifesto. The thriving co-operative banking system and sector must be pursued also as part of the national imperative to reduce inequality and lift the working-class and the poor in general out of poverty and financial exploitation.

7. A successful financial sector transformation programme will require legislative and regulatory review to more clearly differentiate publicly-owned developmental banking system and sector, as well as co-operative banking system and sector, on the one hand, and private commercial banking/financial system and sector, on the other. In the same vein, the problems that faced the Post Bank and the process to transform it to become a fully fledged state bank with a developmental mandate should be thoroughly scrutinised within the framework of the proposed legislative and regulatory review.

8. The long-overdue and now more urgent second financial sector transformation summit must be convened.

High impact, comprehensive and coherent industrial strategy

1. Little will change unless South Africa develops, expands and diversifies its own domestic productive capacity. This requires adequate support for the development of its (domestic productive capacity) constituent capabilities. The process should be co-ordinated in a way that will develop, diversify and raise the levels of national production. It should be coupled with the pursuit of the decent work agenda. Its aim must be a radical reduction of unemployment, poverty and inequality, and meeting the other material needs of the people. This economic structural transformative task (although not exclusively) should be placed at the centre of the strategic perspective of the second radical phase of our transition.

2. South Africa requires an economic policy that, among others, entails measures to radically leverage the country's mineral resources endowment – *as a strategic advantage* – to transform its colonial economic features. This must be anchored in building, localising, expanding and diversifying the manufacturing of

finished products, as a key national production development programme.

3. Accordingly, South Africa needs, and must pioneer the development and implementation of *a high-impact, comprehensive and coherent industrial policy, and, as part of it, a digital industrial strategy and an innovation, research* and development master plan. In this regard, the ANC-led Alliance, in its May 2019 general election manifesto committed to advance an industrial strategy that will *accelerate industrialisation and decent work*, covering 'core industries of manufacturing, agro-processing, mining and beneficiation, and tourism', as well as 'sectors of the future, such as renewable energy'. In this regard, South Africa should adopt high impact sectoral industrial development master plans, including the maritime economy, as part of our industrial policy. Macro-economic policy framework, as discussed already, should be aligned to support industrialisation, rather than choke it.

4. Related to the above, in the New Growth Path we identified what we called jobs drivers. Based on these and the above, the Industrial Policy Action Plan (IPAP) needs to be strengthened, rather than weakened or narrowed. The National Treasury paper is lacking in its appreciation of IPAP, which it proposes must be narrowed down to a few sectoral areas. In making the proposal, the paper asserts that 'The latest iteration of IPAP focuses on thirteen sectoral areas…' – instead of referring to 13 industrial policy instruments. It is not clear how curtailing the number of instruments that we need in our industrial policy in order to advance industrialisation will assist the course of domestic productive capacity development. The proposal seems to be underpinned by driving fiscal austerity in the realm of industrial policy. IPAP needs to be adequately funded over and above being strengthened as part of our overall industrial strategy if we are to industrialise and develop our own national productive capacity.

5. The National Treasury paper proposes value-chain-specific approach within the framework of global value chains (GVCs). It is undeniable that world trade and production has shifted

in the past decades to increasingly take place in GVCs. While indentifying possible entry points into GVCs is not inherently problematic, romanticising GVCs can, however, prove to be highly problematic. In particular, it can result in unintended consequences if not guided by *a high-impact, comprehensive and coherent national industrial policy, digital industrial strategy, and an innovation, research and development master plan*. Care should be taken to avoid being locked into new forms of colonial-type surplus extraction and downward pressures in the race to the bottom forged in GVCs by foreign-controlled multinational corporations (MNCs). Let us look at this from a point of view of farming in the agricultural sector, with research help from Tracy Ledger, author of *An Empty Plate* published in 2018 by Jacana Media.

5.1. Growth of the agricultural sector (like any other sector in the South African economy) will only make a meaningful and sustainable contribution to shared and inclusive growth – the kind of growth necessary to address hundreds of years on inequality – *under certain circumstances*. The dominant development discourse tells us that inclusion into 'modern' value chains will <u>*always*</u> be beneficial for producers, including small farmers and farm workers, provided the producers can meet the required production standards.

5.2. This assumption – that mainstream value chain inclusion is always beneficial – is fundamentally untrue, as demonstrated by a great deal of empirical data from around the world, including South Africa. Instead, the <u>*actual*</u> outcome of value chain inclusion depends to a very great degree on how power is distributed throughout the chain, and how that power is used to extract value from the chain. Specifically, the actual outcome of chain participation is determined by the *terms* on which a particular participant is included. In many cases, for small producers the terms of inclusion are so poor that the participant is better off not being included, but instead seeking an alternative value chain.

5.3. South Africa's agri-food value chains are dominated by very large corporations – the processors and supermarkets – who are the lead firms in the chains. They have considerable power to extract value from other chain participants (and their entire value proposition for shareholders is based on maximising that value extraction). As a result, the terms of trade for agricultural producers in these chains has declined steadily over the past 25 years, and the farm gate share (i.e. the producer price share) of the retail price of all items has fallen, and the gap between the two has grown.

5.4. The example of the small-scale dairy co-operative 25 kilometres outside Harrismith is instructional in this regard: The workers milk 45 cows, and sell the milk to a large processor for just under R5 per litre. At this price, they can barely cover their costs, and cannot afford to hire more labour. All of the support that they obtained has been subject to their entering this value chain, and they will not get funding for alternatives. At the same time, poor consumers in Harrismith cannot afford to buy milk at the retail price of R15 per litre. A truly democratic developmental state would recognise this paradox, and support this co-operative and others like them to *achieve relative de-linking* from the exploitative value chains, for example, to transport their own milk to Harrismith and sell it directly to consumers for R9 per litre. This would create a better situation for both the co-operative farmers and consumers. The co-operative farmers would earn a good income to be able to invest in growing their enterprise and recruiting more workers to join them and thus contribute in reducing unemployment and hunger. Consumers would have access to cheaper food.

5.5. What does this mean for agricultural development policy that will actually contribute to shared and inclusive growth, as opposed to growth in the profits of the largest private corporations? It means that we must stop the pervasive assumption that inclusion into large-mainstream value chains is always good for but not exclusively agricultural producers. It may be, but an alternative – *relative de-linking,* including, as proposed above, alternative local distribution and sale networks – might provide a better welfare outcome for both producers and consumers. The possibility of that alternative needs to be considered seriously. The actual outcome of participation in a particular value chain must be determined *empirically*, and not on the basis of incorrect causal assumptions.

6. We found it necessary to present the above scenario given our support for agricultural development – especially small-holder farmers and co-operatives. The scenario contains and ends with a recommendation.

7. Related to the above, the National Treasury consistently refers to fostering competition, presented as an instrument for inclusion of new entrants in the economy, especially small, micro and medium enterprises (SMMEs). To support this, the paper also refers to the role of the Competition Commission. The reality, in contradiction, has been that of capitalist competition (for maximum market share) leading to concentration and monopoly. This includes monopoly consolidation by means of takeovers or acquisitions of domestic-based enterprises by foreign-controlled MNCs. The National Treasury does not assess this forging of monopoly and dominance in the food sector, as in other sectors, and its wider economic and broader social transformation implications (including, from a long-range thinking point of view, for food security and sustainable livelihoods).

8. The food sector, including beverages, non-alcoholic and alcoholic, is virtually controlled by a handful of private monopolies, domestic and foreign-controlled. There are two major categories in this regard, namely producer-driven and buyer-driven value chains dominated or monopolised by large private corporations. What we need is a full spectrum food/grocery market inquiry, just as we had a health market inquiry in the health sector. The inquiry must evaluate the phenomenon of monopolies and monopsony, as well as related dominance and its abuse. The inquiry should include a dedicated focus on the impact of monopoly, monopsony, dominance and related

abuse on industrial development in the sector, in this regard agriculture/farming and agro-processing, and on food prices as well as sustainable livelihoods. The ad hoc reactions, rather than a systemic focus, we have had through the Competition Commission to the problems caused by the phenomenon have not produced sustainable solutions, thus far, as the overall monopoly and dominance direction has not altered. An enabling framework for industrial development is required in the sector, as in others.

9. The importance of a multi-pronged but coherent and high impact comprehensive industrial strategy – *anchored in domestic productive capacity development* – cannot be overemphasised.

10. Economic and social infrastructure development and upgrading to move with the times is crucial. It also has positive spinoffs for production output and employment, if guided strategically and anchored in the sourcing of locally produced inputs. Increased public infrastructure spending, rather than its curtailing, is therefore crucial. It therefore follows that South Africa requires an expansionary macro-economic policy framework, rather than a conservative macro-economic framework that chokes transformation and development.

Energy sector

1. Privatisation, including the privatisation of Eskom power stations, is decisively rejected in the preceding review and engagement with the National Treasury paper. The state must play its democratic developmental regulatory role. It must also deepen and widen its direct productive role in the energy sector, through Eskom, in the context of a balanced energy mix and just transition. In particular, Eskom must be repositioned to remain the mainstay of electricity generation and transmission, and to continue playing the important role that it is playing in distribution, including in a just transition to cleaner and renewable energy production.

2. The prioritisation of the private profiteering sector and neglect of socially-owned renewable energy and cleaner power generation

sector is highly problematic, to say the least. As part of the national imperative to reduce inequality, unemployment and poverty, as well as the imperative of forging a just transition, the socially-owned renewable energy and cleaner power generation sector must be elevated to a priority status and given adequate attention to support, rather than to compete with Eskom.

3. Through its regulatory powers and functions, the state should ensure adequate planning modalities and concentration of appropriate regulation across the entire power generation and energy value chain. It must strengthen its own ability to create a sustainable system that is responsive to the needs of the people and national development imperatives, both economic and social.

4. What we also need is a more nuanced approach to electricity (as well as gas) tariffs that speak to socio-economic conditions, rather than a one-size-fits-all approach.

Higher, technical and vocal education and training

1. The curtailing of financial support to higher education, technical and vocational training, as discussed already, is decisively rejected. Statistics South Africa has publications on the education profile of the unemployed, including youth which is neither in education nor employment. This needs to be augmented with data from the Department of Employment and Labour, and, if necessary, a thorough additional education and skills audit of the unemployed.

2. What is needed is to respond both immediately (and as part of medium- and long-term scenarios) and accurately to the education, knowhow and skills gaps that stand in the way of the employment prospects of the unemployed or their efforts to start and successfully run their collectively controlled co-operatives or SMMEs. *This requires adequate financial and other material support,* as opposed to curtailing education and training support to TVET colleges, universities, and students from working-class and 'missing middle' households that cannot afford students fees.

3. The National Skills Development Plan (NSDP) released by the Department of Higher Education and Training in March 2019 must therefore be reinforced to rigorously support national production development and diversification as well as employment creation. Sector Skills Plans (SSPs) developed by Sector Education and Training Authorities (SETAs) must more effectively elaborate rigorous sector-specific programmes and more informed skills targets to drive NSDP objectives. This should include a focus on adequately equipping the youth and the unemployed to find work or start their own co-operatives or SMMEs.

4. TVET colleges must actively support the NSDP and SSPs, through, among others, a transformed curriculum and an increase in the number of skills programmes, full and part-qualifications they offer. South Africa must create a wide-ranging pool of professional, technical and vocational skills and qualifications in the TVET sector to continuously improve the quality of public services and diversify industrial production.

5. Partnerships between the bodies responsible for qualifications development and quality assurance in higher education and training (inclusive of the TVET sector) and SETAs must foster greater collaboration to achieve vertical articulation of qualifications and lift up TVET colleges. Greater support must be provided to the TVET sector, as well as community colleges, to adequately equip both the theoretical and practical components of their curriculum.

6. Industry as a whole must come to the party – open up the workplace as a training space and offer apprenticeships, internships, learnerships and other registered workplace training programmes for the unemployed and the youth. If necessary, target-setting must be considered.

7. Government, institutions of learning, training authorities, and industry must advance a combination of education and training with public service and industrial production respectively. This must be given active expression in our curriculum and economic development policy framework.

Revitalisation of the publicly-owned sector of our economy

1. One of the central themes that run through the National Treasury paper is that of exposing public sector productive assets and SOE infrastructure/assets ('network industries') to private profit sector exploitation and capital accumulation interests. Public property rights must be protected and democratic public control developed and safeguarded in the interest of the people as a whole, of whom, to emphasise, the majority is the working-class and poor.

2. Privatisation of Eskom power stations has been rejected already. In the like manner, the privatisation of our rail, water, Telkom and other strategic/SOE infrastructure/networks, among others, and its/their exploitation by private profiteers, is resolutely rejected. More than ever before, South Africa needs a thriving publicly-owned economic sector to drive national transformation and development imperatives – destined for improving the quality of life of the people. The sector must be turned around, expanded and safeguarded against conveyance in any form whatsoever to, and therefore capture by, private exploitation and profiteering interests.

3. Public entities and state-owned enterprises must be rescued from the crisis they were plunged into by the corporate state capture agenda, other forms of corruption, mismanagement, maladministration and inadequate oversight by either government or parliament or by both.

4. Strategic public-public, for example SOE-public DFI partnerships/equity partnering, must be considered where appropriate. To the extent it is absolutely necessary, public-private partnerships must be proposed in a transparent manner and be guided by a coherent legislation, policy framework and strategy, but public-public partnerships must be given a top priority status. In this regard, the interests of the people as a whole should take precedence, rather than subordinated to private profit interests.

Deepening the fight against state capture, corruption, governance decay, and incompetence

1. The work of the commissions of inquiry into state capture, tax administration and governance by the South African Receiver of Revenue (SARS) and into corruption at the PIC, as well as the investigative report of the high-level review panel into our intelligence services, must be followed through thoroughgoing investigations and prosecutions. Asset forfeitures in respect of ill-gotten income, wealth and assets must take precedence.

2. Drastic action must be taken, starting at the top echelons responsible for state capture. This must be supported by programmatic efforts to rebuild the strategic capacity and discipline of law enforcement authorities to perform their work competently and without favour, fear and prejudice. A thorough, independent and specialised investigation into the manifestation and impact of state capture in law enforcement authorities and their infiltration by criminal elements/ syndicates must be conducted.

Democratic public control of our national broadband spectrum

1. In order to optimally seize the opportunities brought by the digital era, broadband access must be categorised as a basic need and consequently the cost of data systematically reduced. In this regard, it is imperative that the analogue to digital migration process be finalised in the interest of the people as a whole.

2. Our national broadband spectrum, a strategic public asset, must indeed be released BUT leveraged through democratic public control to reduce the cost of data and expand access to a wide variety of services and active economic participation, as opposed to privatisation or auctioning off to a few in the name of all. In this regard, a public entity should be entrusted with the prudential control, governance and management of our broadband spectrum in the interest of the people, of whom the majority – again to emphasise – is of course the working-class and poor.

Co-operatives, worker ownership and the solidarity economy

1. The National Treasury's '…economic Strategy for South Africa' does not contain any co-operatives development strategy. It mentions co-operatives only once and in passing. Further, the paper fudges and does not distinguish between the private profit sector and co-operatives. It considers the latter as part of the former – which it overwhelmingly promotes. In this way, co-operatives are subordinated to the regime of private profit and its accumulation logic.

2. The ANC-headed Alliance manifesto provides a sufficient basis for the development of co-operatives and a thriving co-operatives sector. Co-operatives require adequate attention, incentives, capacity building and other forms of material support. The factors inhibiting the development and success of co-operatives must be addressed. To the extent it is necessary, there must be a legislative and regulatory review to support co-operatives development and advance the solidarity economy. A clear co-operatives development strategy is required in this regard.

3. The manifesto attaches great importance to advancing collective worker ownership. The National Treasury's 'inclusive growth' '…economic Strategy for South Africa' neglects this important strategic national imperative. This has to be corrected with a clear strategy.

Review of outsourced operations

1. In the ANC-headed Alliance manifesto, we commit to review outsourced functions with the objective of insourcing, as opposed to more outsourcing under the pretext of inclusive growth and SMMEs development. The review of outsourced services on a state-wide basis, and at all levels, remains essential for the success of the national imperative to roll back the hollowing out of the organic capacity of the state by the private-/corporate-capture agenda. This imperative is also necessary for cleaning up our state and dealing with tender corruption and the problem of unnecessary tenderisation.

Global considerations

A paper produced by Kevin P. Gallagher and Richard Kozul-Wright (2019) supported by the United Nations Conference on Trade and Development (UNCTAD) titled 'A New Multilateralism for Shared Prosperity: General Principles for Global New Green Deal', contains important principles worth taking seriously. These principles merit underlining in the context of our review and engagement with the National Treasury paper, and in view of the importance of fostering regional integration in a fair and balanced manner. 'At the global level, a new multilateralism is urgently needed to pursue these [principles] in a way that maximizes the effectiveness of national development strategies without creating negative global spillovers to partner nations. A new multilateralism will require the following design principles' (Gallagher & Kozul-Wright 2019: 27).

1. Global rules should be calibrated toward the overarching goals of social and economic stability, shared prosperity, and environmental sustainability and be protected against capture by the most powerful players.

2. States share common but differentiated responsibilities in a multilateral system built to advance global public goods and protect the global commons.

3. The right of states to policy space to pursue national development strategies should be enshrined in global rules.

4. Global regulations should be designed both to strengthen… to prevent destructive unilateral economic actions that prevent other nations from realizing common goals.

5. Global public institutions must be accountable to their full membership, open to a diversity of viewpoints, cognizant of new voices, and have balanced dispute resolution systems. (UNCTAD: 2019: 27)

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