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POLICY GRIDLOCK?

Comparing the proposals made in three economic policy documents

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Comparing the proposals made in three economic policy documents

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EXECUTIVE SUMMARY

This report examines three major government strategy documents relating to the economy:

- The Industrial Policy Action Plan (IPAP) produced by the Department of Trade and Industry;
- The New Growth Path (NGP) produced by the Department of Economic Development; and
- The National Development Plan (NDP) produced by the National Planning Commission.

The report examines government's economic strategy as articulated in these documents, seeking to illuminate areas of agreement and of disagreement, as well as differences of emphasis. It assesses the extent to which the approach to economic policy articulated in the three documents coheres into a single approach.

This report is not intended as a critique of government policy. The objective is more limited: to define and delineate policy approaches current within government more sharply. The report must necessarily summarise and condense the arguments and proposals made in each document. However, in doing so, it seeks to represent fairly and objectively the core assumptions and arguments of the three documents. The advantage of this approach is that it helps readers to better understand the similarities and differences of the three policy documents, and to engage with what they propose. Obviously, full engagement with those documents requires reading the originals.

What are the policies' primary objectives?

Industrial Policy Action Plan

IPAP's objectives are premised on long-standing international thinking about industrial policy, and include expanding the industrial base and diversifying exports. Despite this, employment creation is the clear policy priority even though this is seldom the principal aim of industrial policies elsewhere. The clearest manifestation of this is that IPAP's policy proposals are evaluated against their potential to increase employment, resulting in an aggregate target of creating just under 2,5 million direct and indirect jobs.

New Growth Path

The NGP has a number of objectives including a reduction in income inequality, faster economic growth and the development of a green economy. As in IPAP, employment creation is the NGP's principal objective and is the only one to have clear quantitative performance metrics, promising to create 5 million jobs by 2020. This aggregate employment metric is built on a series of sectoral targets, including: infrastructure, 250 000 jobs per annum; getting 300 000 households into agricultural smallholder schemes; 145 000 jobs in agro-processing by 2020, etc.

Despite being ostensibly a growth plan, the NGP does not specify a growth target, nor is there a discussion on what determines and constrains growth; when growth is considered at all it is only in the context of employment creation. The NGP starts with the desired employment number and then works back to the desired level of growth. In doing so, however, it only considers jobs that meet the criterion of being "decent work"—though it does not define the term.

National Development Plan

The NDP sets out a number of measures of economic success. These are not limited to employment creation and include:

- GDP growth of 5,4 per cent between 2010 and 2030;
- Annual employment growth of 3,3 per cent to 2030;
- Growth in investment at 15 per cent a year until 2030; and
- Average annual growth of 6 per cent in the volume of exports.

The NDP explicitly recognises that employment will be highly conditional on the rate of growth, but suggests that South Africa will need to create 11 million jobs by 2030 to reduce unemployment to 6 per cent.

With respect to "decent work", the NDP says that this should be achieved in the long term consequent upon an expanding economy with rising skill levels, while in the earlier phase of the plan emphasis will have to be placed on mass access to jobs while maintaining standards where decent jobs already exist.

Understanding the economy's constraints

Industrial Policy Action Plan

IPAP describes the South African economy, both prior to and after the recession, as consumption-driven, which, it says, is not sustainable. Growth in consumption-driven sectors (finance and insurance, real estate, transport and storage, communication, wholesale and

Quantified employment estimates for the three strategy documents are as follows:

Table 1: Defining objectives and characterising employment

	OBJECTIVES	QUANTIFIED OBJECTIVES	EMPLOYMENT OBJECTIVE	CHARACTERISING EMPLOYMENT
IPAP	• Exports • Technology • Skills • Employment	• Employment (Aggregate)	• 2 447 000 by 2020 (direct and indirect) • 350 000 by 2020 (direct)	• N/A
NGP	• Employment • Growth • Green economy • Reduction in inequality	• Employment (sectoral targets)	• 5 million jobs by 2020	• Decent work
NDP	• Output • Investment • Exports • Employment • Poverty and inequality	• Output • Investment • Exports • Employment • Poverty and inequality	• 11 million jobs by 2030	• Decent work over long term

retail, and catering and accommodation) is said to have occurred at the expense of the production-driven sectors (agriculture, mining, manufacturing, electricity and water, and construction).

IPAP identifies two key factors that underpin this trend:

- A mal-functioning financial sector in which, mainly due to an asset-liability mismatch, short-term investments that characterise the services sectors are preferred over longer-term and capital-intensive investments - which are required to fund manufacturing investments.
- An overvalued exchange rate which stimulates a booming consumption sector and increases imports, but which jeopardises exports, and, as a result, creates an adverse trade balance and makes South Africa increasingly reliant on short-term capital inflows.

To counter these, IPAP says South Africa needs a more competitive exchange rate and lower interest rates.

New Growth Path

The NGP offers a similar characterisation of South African growth as consumption-led, but it takes a different view on what underpins this, pointing to a dynamic where South African interest rates have fallen as a consequence of the higher nominal value of the Rand. Lower interest rates, it says, have fuelled consumer borrowing.

The NGP identifies what it terms "fundamental bottlenecks and imbalances in the economy":

- Over-dependence on the minerals value chain, leading to the high emissions-intensity of the economy;
- Weaknesses in the state's use of commodity-based revenue for economic diversification and skills development;
- Bottlenecks and backlogs in logistics, energy infrastructure and skills, which raise costs across the economy, and which are manifested most obviously in capacity constraints in the generation of electricity;
- Continued economic concentration in key sectors, permitting rent-seeking at the expense of consumers and industrial development; and
- A persistent balance-of-trade deficit funded with short-term capital inflows attracted largely by high interest rates.

National Development Plan

The NDP does not describe the country's economic trajectory as consumption-led, suggesting instead that South Africa is caught in a "middle income trap": it is unable to compete at the "bottom-end" with low-income countries but is also unable to break into, higher-value products and markets that are dominated by high-income countries. Four key constraints, which reinforce each other, impede attempts to grow faster:

- The lack of competition in goods and services stifles innovation and the entry of new firms;
- Uncompetitive labour markets keep new entrants out and skew the economy towards high-skill, high-productivity sectors;
- Low savings mean that the country is reliant on foreign capital inflows; and
- A scarcity of skills pushes up the premium for skilled labour and contributes to rising inequality.

The NDP regards the local financial sector as one of South Africa's key competitive advantages. Other strengths include natural endowments (especially minerals), a strong fiscal position, the country's location on the continent, quality universities, and a sophisticated services industry.

Where will new jobs be created?

Industrial Policy Action Plan

Apart from IPAP's aggregate target for direct employment growth in manufacturing at 350 000 additional jobs by 2020, there is no additional analysis of what sort of firms would allow for this growth (eg. whether these will be large or small, new or existing, export-oriented or focussed on the domestic market).

New Growth Path

The NGP sees the largest share of future employment growth happening in the productive sectors and infrastructure provision, in contrast to the service sector which it does not regard as a key area for growth. As with IPAP, nothing is said about the type of firms that will grow employment.

National Development Plan

With 5,9 million jobs by 2020 (and 5 million more by 2030), the NDP is the most ambitious strategy in terms of job creation.

In contrast with IPAP and the NGP, the NDP envisages most employment growth (90 per cent) will occur in small, labour-intensive service firms largely oriented to the domestic market. These are not high-technology firms, but are composed largely of semi-skilled and low-skilled workers.

Clearly the largest part of the projected employment growth cannot be achieved in existing firms, but will require a very large increase in new firm entry.

Policies proposed

Based on a different specification of objectives; characterisation of South Africa's key economic constraints, and differing perceptions as to where new jobs are likely to be created, the three strategy documents propose differing policies. Table 2 on page 6 provides a brief overview.

Concluding remarks

While there are significant differences in the central emphasis that they assign to employment creation—for IPAP and the NGP, employment growth is the sole quantified objective while for the NDP there are other quantified goals and employment is seen as dependent on economic growth—the three strategy documents are in broad agreement that employment creation is the key objective of economic policy.

There is some measure of overlap among the documents, but significant differences emerge between IPAP and the NGP, on the one hand, and the NDP, on the other, in their respective characterisations of the trajectory of the South African economy and in the identification of the binding constraints on further development. There are additional differences in the identification of the economic sectors and activities—and of the characteristics of firms—that have the potential to create new jobs. These differences underpin and inform the different policies proposed by the three documents.

Clearly, if government policy is to be coherent, choices will have to be made about which set of policies is most appropriate.

Table 2: Key Policy Interventions

POLICIES	IPAP	NGP	NDP
Exchange rate	• Unqualified support for depreciation	• More competitive • Requires - fiscal restraint - accord on wages and prices	• No nominal devaluation • Conditions for effective devaluation do not exist
Development finance institutions and capital subsidies	• Expanded DFIs • Investment subsidies	• Expanded DFIs • Investment subsidies • Development bond • State-owned bank for rural areas	• None advanced
Local procurement	• Unqualified support	• Unqualified support	• Caution on higher costs jeopardising growth
Sector support strategies	• Very wide ranging industrial policy, with an emphasis on beneficiation	• IPAP plus: - infrastructure - agriculture - mining - green economy - tourism - high level services	• Protect sectors with long-term prospects • Short-term support measures for industries affected by cyclical downturn • The financial sector • Retail and business services
Labour market	• No consideration	• Productivity accord • Tighten sub-contracting, labour broking, and outsourcing. • Support for workers in unorganised sectors to achieve greater organisation	• Youth Wage subsidy • Wage restraint • Regulation and subsidy to labour placement sector • Unfair dismissal not to apply for probation period • Simplify dismissal procedures • Migration policy reform to attract more foreign skills

Contents

"While there is some measure of overlap, significant differences emerge between IPAP and the NGP, on the one hand, and the NDP, on the other, in their respective characterisations of the trajectory of the South African economy, in the identification of the binding constraints on further development and in the policies they favour. Clearly, if there is to be policy coherence in government, choices will have to be made about which set of policies is most appropriate."

Introduction

This report examines the major government strategy documents relating to the economy. There are currently three such documents:

- The Industrial Policy Action Plan (IPAP) produced by the Department of Trade and Industry;
- The New Growth Path (NGP) produced by the Department of Economic Development; and
- The National Development Plan (NDP) produced by the National Planning Commission.

The report examines government's economic strategy as articulated in these documents, seeking to illuminate areas of agreement and of disagreement or, more often than outright disagreement, differences of emphasis. It tries to assess the extent to which the approach to economic policy articulated in the three documents coheres. In addition, albeit briefly, the report examines and questions some of the key analytic premises that underlie the differing approaches adopted within government.

This report is not intended as a critique of government policy. The objective is more limited: to define and delineate policy approaches current within government more sharply so as to raise debate on strategies that attempt to address the economic challenges that face South Africa. In doing this, the report must necessarily summarise and condense the arguments and proposals made in each document. The report seeks to represent fairly and objectively the core assumptions and arguments of the three proposals. The advantage of this approach is that it helps readers to better understand the similarities and differences of the three policy documents, and to engage with what they propose. Obviously, full engagement with those documents requires reading the originals. Here, the approach is to boil down the documents to their essences by setting out and comparing:

- Their stated objectives;
- Their respective analyses of South Africa's current economic trajectory and the constraints that inhibit the achievement of those objectives;
- The sectors and economic activities they deem to offer the best prospects for employment growth; and
- The policies that they propose.

While IPAP has a number of objectives, employment creation is the most important

Policy objectives

Industrial Policy Action Plan

Presenting IPAP to the national assembly, the Minister of Trade and Industry spelt out a number of objectives for the programme, saying it would aim to:

- Diversify and grow exports;
- Improve the trade balance;
- Build long term industrial capability;
- Grow domestic technology;
- Catalyse skill development; and
- Create 2 447 000 indirect and direct jobs over 10 years.[1]

1 National Assembly Statement on IPAP2 by Dr Rob Davies, Minister of Trade and Industry, February 18, 2010. The NGP quotes an IPAP2 projected figure of 350,000 direct jobs by 2020 (NGP: 34).

While IPAP has a number of objectives, employment creation appears to be the most important since policies and proposed support programmes are assessed against their potential to create employment. As with the NGP (see below), of which it might be said to be a component, IPAP's employment-creation objectives are very clear and ambitious. It is true that IPAP sets numerous quantified targets and performance indicators in respect of a number of objectives in addition to employment, and that these are to be reported to parliament on an annual basis. However, these targets and performance indicators are all located at a sectoral or a programme level. Apart from the employment target which is at an aggregate level, there are no targets set for IPAP as a whole, making employment creation the only measure of IPAP's overall progress and performance.

In large part, the other objectives of IPAP are consonant with industrial policy as it has been understood and applied in other countries. Thus, increasing and diversifying exports, enhancing industrial capabilities and raising productivity have been the objectives of industrial policy in industrialising countries in Asia, where government support for firms was often conditional on their performance in export markets. However, government support in the Asian countries was not conditional on employment creation or on the achievement of specified employment targets.

The major objective of the NGP is employment creation, the need for which permeates the whole document

New Growth Path

In its own words, the aim of the NGP is to "provide bold, imaginative and effective strategies to create the millions of new jobs South Africa needs. It must also lay out a dynamic vision for how we can collectively achieve a more developed, democratic, cohesive and equitable economy and society over the medium term, in the context of sustained growth. The strategy sets out critical markers for employment creation and growth, and identifies where viable changes in the structure and character of production can generate a more inclusive and greener economy over the medium to long run. To that end, it combines macroeconomic and microeconomic interventions."

It is clear from this statement that the NGP has a number of objectives—employment creation, a reduction in income inequality, faster economic growth, and the development of a green economy. The major objective of the NGP, however, is manifestly employment creation, the need for which permeates the whole document. "The New Growth Path starts by identifying where employment creation is possible, both within economic sectors as conventionally defined and in cross-cutting activities. It then analyses the policies and institutional developments required to take advantage of these opportunities. In essence, the aim is to target our limited capital and capacity at activities that maximise the creation of decent work opportunities"(NGP: 6).

Prof Joseph Stiglitz, the principal foreign adviser to the EDD, is similarly in no doubt that employment creation is the principal objective of the NGP—an objective which he firmly endorses: "I believe that [the NGP] correctly puts employment (in the vocabulary of the International Labour Organisation 'decent work') at its centre. It seeks to build a long-term foundation for a vibrant society, in contrast to unregulated markets, made so evident in the recent crisis."[2]

2 Joseph Stiglitz quoted in ILO (nd.) South Africa New Growth path sets ambitious targets to create 5 million jobs by 2020 www.ilo.org/jobspact/news/WCMS_151955/lang-en/index.htm accessed 18/11/2012.

Of all the multiple objectives sought by the NGP, only employment creation has a clear quantitative metric. It promises to create 5 million jobs by 2020. Moreover, this aggregate employment metric is built on a whole series of sectoral targets—much of the NGP consists of an examination of sectors and activities that are assessed almost entirely in terms of their potential to create jobs and the number of new jobs that are sought from each sector or activity by 2020. Thus, for example: infrastructure, 250 000 jobs per annum; 300 000 households in agricultural smallholder schemes; 145 000 jobs in agro-processing by 2020 etc.[3]

By contrast with the clear targets for employment creation, and despite its being ostensibly a growth plan, the NGP does not anywhere specify a growth target. One looks in vain for any discussion of the prevailing rate of growth, the binding constraints on growth, and the policies that could be adopted to mitigate constraints on growth. There are no specifications of output or growth targets for different sectors or activities. When growth is considered at all, it is only in the context of employment creation. Thus, the NGP starts with the desired employment number and then works back to the desired level of growth. "The rate of growth required to achieve the target of 5 million jobs over the next ten years depends on the employment intensity of growth—that is, the relationship between the growth in employment and the growth in the GDP" (NGP: 9).

It is also of note that the NGP specifies that employment created must meet the criterion of being "decent work": "In essence, the aim is to target our limited capital and capacity at activities that maximise the creation of decent work opportunities"(NGP: 6). However, no clear definition of "decent" work[4] or of decent jobs[5] is provided.

Despite its being ostensibly a growth plan, the NGP does not anywhere specify a growth target

National Development Plan

The NDP sets out a number of measures of economic success. These include but are not limited to employment creation. "The key measures of economic success identified in the plan are that South Africa achieves average GDP growth of over 5 per cent, and that by 2030 GDP per capita is more than twice the present level, export growth has accelerated, income levels have risen above the poverty line for all, inequality has been substantially reduced, and unemployment has been reduced from 25 per cent to 6 per cent" (NDP: 110). Overall, the NDP envisages an economy in 2030 that would be 2,7 times larger than currently.

The NDP examines the current trajectory of the South African economy and then sets a number of clear and quantified economic goals to be realised by 2030, many of which are premised on the trends achieved during the period of rapid economic growth between 2004 and 2007:

- Output: GDP grew by 5,2 per cent a year between 2004 and 2007, and the NDP envisages average annual growth of 5,4 per cent between 2010 and 2030.

3 For a summary of the different sectoral employment goals see NGP Appendix A Job Drivers.
4 The NGP refers to the ILO definition of a "decent work agenda". This agenda has four strategic objectives–employment and income opportunities; fundamental principles and rights at work and international labour standards; social protection and social dialogue and tripartism (NGP: 3). But, no clear and operative definition of decent work is forthcoming.
5 The phrase "decent jobs" is defined once, but in the form of a tautology as "decent work (more and better jobs)…" (NGP:8).

- Jobs: Employment grew at 3,8 per cent a year between 2004 and 2007, and the NDP envisages future annual growth of 3,3 per cent to 2030.[6]
- Investment: Investment grew at 20 per cent a year from 2004 to 2007, and the NDP envisages a growth rate of 15 per cent a year to 2030.
- Exports: The volume of exports grew 6,4 per cent a year from 2004 to 2007, and the NDP envisages future average annual growth of 6 per cent.

The NDP explicitly recognises that employment will be highly conditional on the rate of growth, but suggests that South Africa will need to create 11 million jobs by 2030 to reduce unemployment to 6 per cent (NDP: 121). In contrast to the NGP and IPAP, the NDP specifies clear quantitative targets in respect of output, investment and exports in addition to employment, with the latter made explicitly conditional on economic growth.

With respect to "decent work"—this should be achieved in the long term consequent upon an expanding economy with rising skill levels (NDP: 131). In the earlier phase of the plan, emphasis will have to be placed on mass access to jobs while maintaining standards where decent jobs already exist (NDP: 132).

Summary

The NDP explicitly recognises that employment will be highly conditional on the rate of growth

All three documents are concerned with employment creation, but the emphasis placed on it differs. The NGP is almost exclusively concerned with employment creation and there are no specified growth targets. IPAP has a number of objectives but, at an aggregate level, employment creation is the sole quantified objective and metric by which to assess performance. The NDP is much more multi-faceted—there are a number of specified economic objectives and while employment—creation is critical, its rate is seen as dependent on economic growth.

The economy's key constraints

Industrial Policy Action Plan

IPAP argues that both prior to and after the recession, economic growth in South Africa was consumption driven, with "consumption-driven sectors"—essentially services—growing rapidly relative to the rest of the economy. Importantly, their growth has been at the expense of the production-driven sectors—mining, agriculture and particularly manufacturing. This, IPAP argues, is not a sustainable growth path: "As before the recession, growth has continued to be driven by unsustainable increases in private credit extension and consumption rather than a more sustainable growth path underpinned by the growth of production-driven sectors of the economy. Thus, consumption-driven sectors (that is, finance and insurance, real estate, transport and storage, communication, wholesale and retail, catering and accommodation) are the driving force of South Africa's

6 Based on a projection of a growth rate of 5.4% in GDP, employment elasticity would be 0.6% over the period to 2030. Employment elasticity is the amount of additional employment generated when output increases.

modest economic growth as opposed to production-driven sectors (i.e. agriculture, mining, manufacturing, electricity and water, and construction)" (IPAP:22-23).

Table 1: Defining objectives and characterising employment

	OBJECTIVES	QUANTIFIED OBJECTIVES	EMPLOYMENT OBJECTIVE	CHARACTERISING EMPLOYMENT
IPAP	• Exports • Technology • Skills • Employment	• Employment (Aggregate)	• 2 447 000 by 2020 (direct and indirect) • 350 000 by 2020 (direct)	• N/A
NGP	• Employment • Growth • Green Economy • Reduction in inequality	• Employment (sectoral targets)	• 5 million jobs by 2020	• Decent work
NDP	• Output • Investment • Exports • Employment • Poverty and inequality reduction	• Output • Investment • Exports • Employment • Poverty and inequality reduction	• 11 million jobs by 2030	• Decent work over long term

IPAP characterises the financial sector as mal-functioning

Underpinning this consumption-led growth have been two key factors:

- *The mal-functioning financial sector*. South Africa is characterised by very "impatient capital", and, because it is funded by short-term deposits, the financial system is unwilling to fund longer-term and more capital-intensive investments. "The private financial sector in South Africa is not adequately aggregating savings and distributing them towards productive fixed investment in the economy. Clearly inherent market failures exist, the most critical of which is the asset-liability mismatch. The short-term nature of the source of funding (mainly deposits and short-term capital inflows) manifests in impatient capital eager to fund either established 'relatively low-risk' industries (e.g. upstream capital-intensive and energy-intensive industries) or industries achieving profitability within a short period of time (e.g. consumption-driven services). Consequently, banks are not willing to channel funds towards relatively less entrenched or established industries (particularly downstream manufacturing industries) as these require longer-term investment horizons and grace periods for new entrants" (IPAP: 30).
- *An overvalued exchange rate*. An overvalued exchange rate is said to have many deleterious consequences. It fuels the consumption boom while increasing imports. It also jeopardises exports, resulting in an adverse trade account and over-reliance on short-term capital inflows. For this reason, the Reserve Bank resorts to high real interest rates so as to limit inflation but also so as to reinforce capital inflows. The effect is to increase currency volatility and to make the currency slave to changes in financial flows rather than to the real economy. In addition, industrial policy has very little effect in the context of an overvalued and volatile exchange rate and high real interest rates. IPAP therefore identifies

> the exchange rate and the interest rate as the binding constraints to industrial advance requiring an urgent change in macroeconomic policy.

IPAP does recognise, however, that micro-economic policies can make a substantial contribution to the stability of macroeconomic variables (IPAP:29-30).

New Growth Path

The NGP's characterisation of South Africa's economic trajectory and its constraints is very similar to IPAP's in that South Africa's growth is described as consumption-led. This is underpinned by a high nominal value of the Rand which encourages consumption of imports. Thus, the NGP says that, "The upswing from the early 2000s to 2008 built on South Africa's traditional strengths, as booming international commodity prices combined with high global liquidity to foster significant short-term inflows of capital. One consequence was that this enabled the country to spend more than it earned; another was that it increased the nominal value of the Rand. It also resulted in what has been described as consumption-led growth that was not underpinned by a strong production base, with rapid growth in retail, the financial sector and telecommunications and comparatively slow expansion in manufacturing, agriculture and mining" (NGP: 4).

By contrast with IPAP, the NGP sees South African interest rates as having fallen as a consequence of the higher nominal value of the Rand

By contrast with IPAP, however, the NGP sees South African interest rates as having fallen as a consequence of the higher nominal value of the Rand. However, the lower interest rates have only resulted in even faster consumption growth and have not stimulated investment in production. "The strong Rand permitted reductions in the interest rate, contributing to rapid credit creation, as well as cheaper imports, but it also contributed to lower profitability and competitiveness in manufacturing, agriculture and other tradable-goods sectors. It generated a consumption boom that was largely restricted to South Africans in the upper income group" (NGP:5).

The NGP identifies what it terms "fundamental bottlenecks and imbalances in the economy" (NGP: 5):

- Dependence on the minerals value chain, including smelting and refining, which uses large amounts of electricity, leading to a very emisions-intensive economy;
- Weaknesses in the state's use of commodity-based revenue for economic diversification and skills development;
- Bottlenecks and backlogs in logistics, energy infrastructure and skills, which raises costs across the economy, with a particular concern being energy shortages resulting from weak investment in new generation capacity as well as high demand spurred by low prices for much of the 2000s;
- Continued economic concentration in key sectors, permitting rent-seeking at the expense of consumers and industrial development; and
- A persistent balance-of-trade deficit funded with short-term capital inflows attracted largely by interest rates that were high by international standards.

In summary, South Africa borrowed abroad to sustain government spending, investment and household consumption which remained heavily biased toward the well-off, while both investment and domestic savings remained below the levels required for sustained growth.

National Development Plan

By contrast with IPAP and the NGP, the NDP does not describe recent economic growth as being consumption led. There is no usage of the term and no suggestion that "consumption sectors" have grown more rapidly than the productive sectors or that the former have grown at the expense of the latter. Instead, the NDP characterises South Africa as caught in a middle income trap.

The NDP argues that, as with many other middle income countries, South Africa's problem is that it is currently unable to compete at the "bottom end" of the global value chain with low-income countries, but is also unable to break into new higher-value products and markets that are dominated by high-income countries. For the NDP, South Africa faces four key constraints in attempting to move out of the low income trap (NDP:110):

- Low levels of competition in goods and services markets;
- Large numbers of work-seekers who cannot enter the labour market;
- Low savings; and
- A poor skills profile.

Uncompetitive goods and services markets deter the entry of new firms, stifle innovation and lead to high profit margins. The lack of competition, by favouring large, incumbent firms, also skews the economy towards high-skills and high-productivity sectors. Low savings mean that the country is reliant on foreign capital inflows, but, since foreign investors invest in existing high-profit firms, this reinforces the oligopolistic nature of the economy. The skills constraint pushes up the premium for skilled labour and contributes to high levels of inequality.

The NDP characterises South Africa as caught in a middle income trap

Of particular importance is the identification by the NDP of an uncompetitive labour market as a major factor constraining growth and reducing the employment of those without skills. By describing the labour market as uncompetitive, the NDP is clearly signalling that reform of the labour market is required in order to enhance growth and employment.

The NDP argues that what differentiates the successful middle income countries is "how much the country invests in human capital, product development and technology." These are areas in which South Africa is deficient (NDP: 112).

The NDP's discussion of the exchange rate is conducted in very general terms, as pertaining to mineral exporting countries, and the main impediments to growth are seen by the NDP to be located elsewhere.

The financial sector is not identified by the NGP as a constraint on future growth. In contrast with IPAP's claim that there is misallocation of resources to unproductive activities by a mal-functioning financial sector, the NDP looks on the financial sector favourably. Indeed, the NDP regards the local financial sector as one of South Africa's key competitive advantages. "South Africa is in the fortunate position of having areas of comparative advantage. These include its natural endowments (including minerals), a strong fiscal position, its location on the continent, a strong and deep financial services sector, quality universities and a small but sophisticated services industry" (NDP: 111).

Summary

There are significant differences in the characterisation of South Africa's economic trajectory as between IPAP and the NGP, on the one hand, and, on the other, the NDP. In respect of the binding constraints, IPAP and the NGP see the principal constraints as lying in the macro-economy. For the NDP, the macro-constraints are less significant, and the key lies in the micro-economy. As regards the micro-economy, there is some overlap between the three strategy documents. However, by contrast with the other strategy documents, the NDP places considerable emphasis on an uncompetitive labour market.

Table 2: Characterising the Economy; Identifying Macro and Micro Constraints

	CHARACTERISING THE ECONOMY	MACRO CONSTRAINTS	MICRO CONSTRAINTS
IPAP	• Consumption-led	• Mal-functioning financial sector • Overvalued and volatile exchange rate • High interest rates	• Economic concentration • Skills
NGP	• Consumption - led	• Overvalued and volatile exchange rate • High interest rate • Low saving rate	• Carbon emissions • Energy Infrastructure • Economic concentration • Skills
NDP	• Low growth middle income trap	• Low saving rate	• Economic concentration • Uncompetitive labour market • Skills

The NDP regards the local financial sector as one of South Africa's key competitive advantages

Where will new jobs be created?

Industrial Policy Action Plan

As we have seen, IPAP has an aggregate target for employment growth in manufacturing —350 000 additional jobs by 2020 and a further 2,1 million indirect jobs. However, IPAP provides targets for employment for only very few of its sector programmes and offers no disaggregated sectoral employment numbers to explain what makes up the aggregate employment number. In addition, while IPAP does spell out the policy actions to be taken in considerable detail, the anticipated outcomes in IPAP are not quantified and usually do not indicate, even in a general way, anticipated employment gains.[7] Thus, while the key metric for success of IPAP is employment growth, nothing is specified that would allow an assessment of the success or otherwise of the different IPAP programmes and supports in this regard.

7 The sector programme for green energy for example specifies the following: "Outcome: increased local content threshold for renewable energy projects in line with the development of a competitive local industry" (IPAP: 65). The sector programme for oil and gas services and equipment says, "Outcome: reduce import leakage, increase investments in key manufacturing processes and activities to supply into the domestic market and capture after-market opportunities, revive lost manufacturing capacity, and increase employment and exports" (IPAP: 69).

New Growth Path

By contrast with IPAP, the NGP provides details of the sectors and activities where jobs will be created. Five "Job Drivers" are listed and are summarised in Table 3.

Table 3: NGP Job Drives and Employment Gains

JOB DRIVERS	NO. OF JOBS	TOTAL NO. OF JOBS
Infrastructure Provision	250,000 per annum	2.5 million[8]
Economic Sectors		1.21 million
Agriculture[9]	300,000 smallholders 145,000 agro-processing	
Mining	140,000	
Manufacturing	350,000	
Tourism and high level services	275,000 (225,000 Tourism)	
New Economies		400,000
Green economy	300,000 (80,000 in manufacturing)	
Knowledge economy	100,000	
Social Economy [10]		360,000
Public service	260,000	
Public works [11]	100,000	
Spatial Development		150,000
Rural development	Improvement in livelihoods for 500,000 households[12] services	Not specified
African regional development[13]	150,000	
TOTAL		**4.62 million**

There are significant differences in the characterisation of South Africa's economic trajectory as between IPAP and the NGP, on the one hand, and, on the other, the NDP

The NGP expects that most new jobs will be in infrastructure and in the productive sectors, particularly in the short-medium term (NGP: 10). Four features are immediately evident:

1. The numbers do not quite total to the overall NGP projected figure of jobs to be created of 5 million. More importantly, no indication is given in the NGP as to how these projections were derived. They cannot therefore be assessed or evaluated.

2. A number of the projections seem optimistic. For example:
   - Agro-processing: increase agro-processing jobs by 145 000 would grow the workforce in that industry by 69 per cent.

8 Inexplicably, the creation of 250,000 new jobs per annum is only to 2015. It is assumed here that the annual rate of job creation for infrastructure provision continues to 2020 since, absent that assumption, the growth target is considerably lower.
9 The NGP also seeks to improve employment conditions for the 660, 000 existing farm workers.
10 Coops, social investment vehicles, community and social initiatives
11 There is also to be "targets for Expanded Public Works Programme and within that for Community Works Programmes; new youth scheme proposes up to one million young people in a special brigades" (NGP:35).
12 As well as substantial new employment from increased construction and public employment plus growth in manufacturing and services (NGP:36).
13 "...just from exports of goods to SADC" (NGP: 36).

- Manufacturing in aggregate: manufacturing has been shedding jobs consistently since 1996, with aggregate numbers of jobs falling 20 per cent.[14] Despite this, the NGP anticipates an increase of 350 000, some 30 per cent of the existing workforce.
- Green economy manufact uring: often the subject of a considerable "hype" that job gains here could stem the overall decline in manufacturing jobs, the NGP envisages an additional 80 000 jobs in manufacturing by 2020 even though a recent study projected a much smaller potential gain of 46 000 by 2025.

Table 4: Net long-term (2025) direct manufacturing employment potential estimated by broad green economy category and principal product

Green Economy Category	Net direct manufacturing employment potential in the long term
Energy Generation of which Photovoltaic power	22, 566 (8,463)
Energy and Resource Efficiency of which Solar Water Heaters	2,686 (1,225)
Emmisions and Pollution Mitigation of which Recyling	20,797 (9,016)
TOTAL	**46,049**

Source: Maia et al 2011:8

The NGP expects that most new jobs will be in infrastructure and in the productive sectors

3. As interesting as the areas where the projected jobs are to be created are the areas where job-creation is not projected to take place. Employment growth is seen by the NGP as very largely occurring through the provision of infrastructure and in the productive economy—manufacturing, agriculture, mining, tourism, green economy, the knowledge economy, and goods exported to the region. Where services are considered at all, it is high level business services or services related to the knowledge economy, the green economy or government services. Outside of these areas, the services sector is not identified as an important area of job-creation. The omission of the services sector is unexplained, but it may be a reflection of the view advanced by IPAP and the NGP that the services sector has grown at the expense of the so-called "productive side of the economy", and that policy must and will reverse that trend.

4. While the NGP provides detail as to which sectors are projected to create employment, it says nothing about the type of firms that will grow employment. Are these projected to be new entrants or existent firms? What size of firm is projected to be responsible for growing employment? Since the constraints that face new firms and/or small firms will differ from the constraints that face well established and/or larger firms, defining these dimensions is important for the design of policy.

14 With the exception of the years of strong growth in the global and national economy between 2006 and 2008 when there was a small increase, the absolute number of employees in manufacturing has declined consistently. Manufacturing employment was at its peak in 1996, at just less than 1.5 million jobs, but was 21 per cent lower in 2011.

National Development Plan

In terms of the number of jobs to be created, the NDP is even more ambitious than the NGP. While the latter aims for 5 million jobs by 2020, the NDP targets 5,9 million jobs by 2020 and 11 million by 2030 (NDP:118).[15]

Apart from the different numbers, the NDP differs significantly from both IPAP and the NGP as to where jobs will be created. Moreover, unlike IPAP and the NGP, the NDP does specify the type of firm that will be responsible for most job creation: "In the short to medium term, most jobs are likely to be created in small, often service-oriented businesses aimed at a market of larger firms and households with income. …Significantly, these firms are often intensive in mid- and low-skilled employment" (NDP: 115). It also says, "A large percentage of the jobs will be created in domestic-oriented activities and in the services sector. Some 90 per cent of jobs will be created in small and expanding firms.… By 2030, the share of small and medium-sized firms in output will grow substantially" (NDP: 119).[16]

Thus, for the NDP, by far the largest share of employment growth will occur in small labour- intensive service firms primarily oriented to the domestic market. These are not high-technology firms, but firms that employ a lot of semi-skilled and low-skilled workers. Clearly the largest part of the projected employment growth cannot come from existent firms, and to achieve this level of employment growth there will have to be a very large increase in new firm entrants.

In the NGP, the services sector is not identified as an important area of job creation by the NGP

Summary

IPAP and the NGP envisage employment growth occurring largely in the productive sectors and in infrastructure provision. Neither specifies the characteristics of the firms creating employment—large or small, existing or new entrants, export or domestic oriented. By contrast, the NDP sees the vast bulk of employment growth as occurring in small, new entrants servicing the domestic market.

15 The NDP projects that 5 million additional jobs will be created between 2020 and 2030 (NDP: 118).

16 "Most new employment will arise in domestically oriented activities, where global competition is less intense and there is high labour component. It may be functionally possible to trade in these activities, but in essence, they must take place where the demand exists. Examples include housing construction, retail, personal services such as hairdressing or cleaning, and business services such as office cleaning or repair" (NDP: 128).

Table 5: Number of Jobs - where jobs are created and characteristics of firms creating jobs

	NUMBER OF JOBS BY 2020	JOB CREATION AREAS	CHARACTERISTICS OF FIRMS CREATING JOBS
IPAP	• 350,000 (direct) 2,447,000 (direct and indirect)	• Manufacturing	• Not specified
NGP	• 5 million	• Infrastructure • Productive sectors • New economy • Social economy	• Not specified
NDP	• 5.9 million by 2020 • 11 million by 2030	• Services (90%)	• Small • Labour-intensive • New • Domestic market oriented

Policy responses

For the NDP, by far the largest share of employment growth will occur in small labour-intensive service firms

Industrial Policy Action Plan

IPAP details a large number of policies designed to enhance the growth of the productive sectors, principally manufacturing industry (IPAP: 29). Five sets of policies are central: macro policies (exchange and interest rates), investment incentives, concessionary financing, public procurement, and sector support strategies.

According to IPAP, the Rand is overvalued and real interest rates are high by comparison with South Africa's competitors. For this reason, it presses for fundamental change in monetary policy—a lowering of both the exchange rate and the interest rate to support economic growth in general and export growth in particular. How this is to be achieved is not specified, although better microeconomic policies, it is said, will make some contribution.

IPAP argues that the productive sector cannot obtain the investment finance that it requires from the open market, particularly for projects expected to generate only long-term returns, except at very high interest rates and on onerous terms. It supports two sets of policies designed to ensure that the productive sector has access to funds for investment. The first is various forms of subsidy for investment, particularly labour absorbing and longer term investment, to be effected by various programmes such as the Manufacturing Competitiveness Enhancement Programme. The second policy is to ensure the provision of finance through an expansion of industrial financing to "real economy sectors" on favourable terms via the Development Finance Institutions (DFIs), notably the Industrial Development Corporation.

The Preferential Procurement Policy Framework Act creates preferences for local suppliers across all government departments and state-owned enterprises. Preferential public procurement, particularly in relation to the infrastructure programme, is seen as critical to the success of IPAP.[17]

Finally, IPAP promotes an active industrial policy that extends programmes and supports to sectors. IPAP has programmes for a very large number of sectors—particularly in manufacturing. There are no significant areas of manufacturing that are not supported, but IPAP is particularly supportive of beneficiation.

New Growth Path

In pursuit of what it terms "a more competitive exchange rate", the NGP advocates a change in monetary policy. This will entail "Additional and larger purchases of foreign currency (…) in order to counter the appreciation of the Rand." The NGP also advocates significantly greater fiscal restraint, arguing that a more restrained fiscal stance and reprioritisation of public spending will enhance sustainability over time (p.15).[18]

The NGP recognises that a more competitive exchange rate is not without its costs. These include the need to build up foreign reserves which entails diverting resources from other social needs (NGP: 16). It also recognises that to have any impact on competitiveness, a nominal exchange rate depreciation must not be offset by rising prices and wages. "Measures designed to bring about a more competitive exchange rate may be undermined if all of the competitiveness gains are eroded by rising domestic prices and wages. That would limit the ability of producers to create more jobs by using the more competitively-priced currency to increase exports of South African goods into global markets or to reclaim a larger share of the domestic market. By extension, then, measures to address the currency must be paired with consistent efforts to avoid a price and wage spike as a result of the currency depreciation in order for the intervention to have the desired effect" (NGP: 15).

IPAP argues that the productive sector cannot obtain the investment finance that it requires from the open market

It is for this reason that the NGP made the controversial proposal for a broad development pact on wages, prices and executive bonuses (NGP: 26). This proposed pact has three elements:

- To moderate wage settlements for workers earning between R3 000 and R20 000 a month, "possibly to inflation plus a modest real increase", with inflation-level increases for those earning over R20 000 a month.
- On bonuses, prices and employment:
  - to cap pay and bonuses for senior managers and executives earning over R550 000 a year,
  - to moderate price increases, especially on inputs and wage goods, and
  - to ensure that wage moderation and measures to support competitiveness lead to a measurable increase in employment creation.
- As government:
  - to maintain the real value of social grants and improve the "social wage" in poor communities, including housing, healthcare and education,

17 "The public procurement lever is a critical instrument for the success of the IPAP across a range of sectors" (IPAP: 33).

18 A counter-cyclical fiscal stance through the business cycle will manage demand in support of a more competitive currency while achieving critical public spending goals. The MTEF foresees real growth in expenditure of just over 2% a year for the next few years (NGP: 17).

- to reduce wage inequalities through efforts to improve pay, conditions and organisation for vulnerable workers (including those earning below the threshold set out above), and
- to ensure any increases in industrial financing creates large-scale employment.

The NGP proposes to increase significantly the capacity and impact of the DFIs, particularly the IDC. This, it notes, will require both reform of institutional structures and the use of "financial engineering" (NGP: 18). Improved financing could be effected through a development bond and/or mobilising resources from retirement funds and utilising the Government Employee Pension Fund and Public Investment Corporation.

The NGP is fully supportive of IPAP industrial policy proposals including public procurement and sector policies, and includes an even wider set of sectors than IPAP does. "As a first step, we will prioritise efforts to support employment creation in the following key sectors:

- infrastructure,
- the agricultural value chain,
- the mining value chain,
- the green economy,
- manufacturing sectors, which are included in IPAP2, and
- tourism and certain high-level services" (NGP:10).

The NGP made the controversial proposal for a broad development pact on wages, prices and executive bonuses

In regard to the labour market, the NGP proposes six new policies:

- A National Productivity Accord supplemented by sector and workplace productivity agreements;
- Legislative amendments to reduce workers' vulnerability by addressing problems experienced in contract work, sub-contracting, outsourcing and labour broking and by including decent work considerations in the procurement process;
- Ways to limit abuse of the CCMA by senior managers and professionals who have access to other dispute-settlement systems but who tie up the process with procedural points, and generally to further improve cost-effective services to workers and employers;
- Expanding the role of the Unemployment Insurance Fund in funding DFI efforts to create employment and extending employment services to assist unemployed people to find jobs;
- Improvements to the functioning of labour centres in order to improve information about employment and training opportunities; and
- Measures to support the organisation of the unorganised, in particular farm workers. (NGP: 23).

In broad terms, the NGP proposed policies with respect to the labour market can be considered as pro-organised labour and as "tightening" the labour market. This is especially true of curtailing/regulating sub-contracting, outsourcing and labour broking and measures to support the unorganised.

National Development Plan

By contrast with IPAP and the NGP, the NDP does not advocate exchange rate devaluation, though it recognises the danger of excessive overvaluation of the Rand and seeks to prevent it through the prudent accumulation of reserves (NDP: 113). The NDP sees the relation between a devaluation and growth as questionable, but, more importantly, notes that the conditions for an effective exchange rate devaluation are not present in South Africa: “Exchange-rate devaluations, in some countries, have had the effect of creating a growth spurt. However, this only works if firms can respond to opportunities and if labour and product markets are flexible enough to prevent the weaker currency from fuelling inflation. In South Africa, these conditions do not exist, though they can be developed over time. South Africa’s present economic capabilities do not allow greater control over the exchange rate, although reducing volatility should receive greater attention (NDP: 125.[19])

Compared to IPAP and the NGP, the NDP adopts a very different approach to the financial sector. Rather than see it as a barrier to growth, it is seen by the NDP as one of South Africa’s key competitive assets and even as a sector which might be selected for special support by government (NDP: 150-1).

The NGP proposed policies with respect to the labour market can be considered as pro-organised labour and as “tightening” the labour market

IPAP and the NGP, based principally on their view of the financial sector as mal-functioning in that it is unwilling to provide finance for investment in the productive sectors, advocate a number of state interventions to ensure access to finance and to subsidise investment on the part of firms in the productive sectors. By contrast, the NDP makes no mention of the need for large scale state supports and subsidies to support investments on the part of firms in the productive sectors or elsewhere.[20]

The NDP also does not call for a significant increase in the funding or for an expansion of the mandates of DFIs, focusing, instead, on their financial soundness: “DFIs are part of the overall fiscal armoury of the state. They partner the private sector in lowering risk, take a long-term perspective towards investment, and promote the government’s development objectives. DFIs in the industrial, infrastructure, agricultural and housing sectors are central to the plan to raise growth and employment. Measures will have to be instituted to ensure that they operate efficiently and have sound balance sheets, for them to meet their development mandate “(NDP: 138).

While the NGP calls for the local procurement policy to be stepped up, the policy is described as ambitious and the NDP sounds a word of warning as to the potential impact on costs. “A Local Procurement Accord, negotiated through the EDD and social partners, commits both the private and the public sectors to ambitious targets in respect of the localisation of procurement. However, efforts to stimulate local procurement should not

19 The NDP notes that a real exchange rate devaluation results in higher profits in the traded goods sector—particularly the export sector. Higher profits, in turn, lead to higher investment. A real exchange rate depreciation is therefore a regressive measure, at least in the short term, since it favours profits.

20 While the NDP seeks a major increase in investment from current 17% of GDP to 30% of GDP, no capital subsidies are advanced and the policy measures to achieve investment are market friendly. “Raising the rate of investment will require measures to reduce business costs and uncertainty and enhance profitability, public sector commitment to capital investments and regional integration to expand the consumer base. The savings rate will ratchet up over time” (NDP: 127).

reinforce higher costs for the public sector and business because this will undermine growth and job creation" (NDP: 129).

In regard to sector strategies, the NDP identifies sectors that are worthy of support, defining these as "those with substantial potential for either growth stimulation or employment or both"(NDP: 144). Like IPAP and the NGP, the NDP provides a long list of worthy candidates:

- Agro-industrial cluster,
- Minerals and metals,
- Manufacturing,
- Construction/infrastructure,
- The green economy,
- Tourism and culture,
- The financial sector, and
- Retail and business services (NDP: 144-152).

What is noteworthy is that the NDP has identified the financial sector and retail and business services as worthy of special support. IPAP, by contrast regards the financial sector in particular and services in general as having grown at the expense of the productive sectors.

While the NGP calls for the local procurement policy to be stepped up, the NDP sounds a word of warning as to the potential impact on costs

While generally offering some support for beneficiation, the NDP evinces considerable scepticism. "Electricity is the main constraint, as most of these activities are energy-intensive. As long as energy is scarce, there will be a trade off between beneficiation and other more labour-absorbing activities. In general, beneficiation is not a panacea because it is also usually capital-intensive, contributing little to overall job creation" (NDP: 146). The NDP advocates rather building backward linkages from mining—an approach that has received too little policy attention. "Substantially more attention will be devoted to stimulating backward linkages or supplier industries (such as capital equipment, chemicals and engineering services). Demand is certain; there is an opportunity for specialised product development, and the product complement is diverse. They are also more labour-absorbing than typical downstream projects. Such products have the potential for servicing mining projects globally, which is an advantage should the commodity boom persist" (NDP: 147).

For the NDP, which describes South Africa as being stuck in a middle income trap, the country has to become more competitive so as to move up the value chain. The first priorities in this regard are "...labour market reforms aimed at promoting employment, particularly of young people." The NDP advocates "Breaking the disincentive to hire young, unskilled work seekers by incentivising the employment of young, unskilled work-seekers" (NDP: 115).

The NDP also calls for wage restraint as critical to ensuring employment growth. "From a 20-year perspective, real wage growth will have to be linked to productivity growth—although it is possible for it to veer off for a few years, it is not feasible to sustain a labour-absorbing path unless both are growing in tandem. This is a sensitive, but central point" (NDP: 132).

The NDP advocates a series of active labour market policies. These include:

- A subsidy to the labour placement sector to enable them to prepare and place matric graduates in work;
- Expanding learnerships and making training vouchers available to workers; and
- A more open approach to skilled immigration.

The NDP addresses the often-expressed concern that employment creation is adversely affected by difficulties that firms have in regard to dismissal. To encourage firms to take on new workers, the NDP advocates that there should be a period of probation for new hires, up to a limit of six months, when unfair dismissal procedures should not apply. The NDP cites "anecdotal evidence" to the effect that there is excessive reversal of dismissals on procedural grounds. The NDP advocates a simplification of procedure; "Any appeal or reversal of a dismissal should be ruled on substantive and not procedural grounds, except in the case of constructive dismissal" (NDP: 133).

Unlike the NGP, which would curtail the sector, the NDP regards private temporary employment and placement services as "essential" in providing access to work. It says that in order to continue to ensure labour matching for vulnerable workers and, at the same time, to protect basic human rights, the sector should be regulated. Regulations are not seen as punitive or designed in any way to curtail these activities, but only that they should be consonant with basic human rights. Indeed, the NDP advocates subsidising the labour placement sector to enable them to prepare and place matric graduates in work.

The NDP advocates incentivising the employment of young, unskilled work seekers

The NDP seeks to lower the costs of business. This is to be achieved through regulatory reform, enhanced infrastructure investment, the application of competition law and improvements in the quality of public services. These policies accord with those advocated by IPAP and the NGP.

The NDP also seeks to lower the cost of living for the poor. "Reducing the cost of living for the poor is essential for achieving a social floor and enhancing people's lives and their opportunities to effectively participate in society and the economy" (NGP: 116). This requires stable food price inflation, adequate subsidised public transport and a predictable energy price path. The NDP regards its proposals for lowering costs as complementary to the NGP. "The NGP and this plan are complementary in the effort to lower costs in the economy, especially as high costs contribute towards limiting employment growth and increase hardship for poor households" (NDP: 117). However, while lowering cost of living for the poor may be said to complement the NGP, the NGP makes no mention of this as a policy thrust.

Finally, since the NDP regards the vast bulk of employment creation as being driven by new firms, it gives considerable emphasis to the need to promote new firm entry, principally through reducing the regulatory burden especially in regard to the labour market. "Compliance requirements and regulations for reporting on employment equity and skills development should be simplified for small firms, or even eliminated for very small firms" (NDP: 135).

Summary

For IPAP and the NGP, changes in macro-policy are critical for job creation and growth, though the NGP recognises that to be effective an exchange rate devaluation would need to be accompanied by fiscal restraint and restraints on prices and earnings. For the NDP, by contrast, the conditions that would allow for an exchange rate devaluation to have a positive impact on growth do not exist. Exchange rate devaluation is accordingly a non-starter.

There are also pronounced differences in regard to the role and importance of the financial sector. The IPAP and the NGP advocate extensive capital subsidies and support from expanded DFIs to productive sectors. The NDP, by contrast, sees a well-functioning financial sector and does not propose extensive capital subsidies.

Based principally on the different interpretations as to where the new jobs could potentially be created, there are also significant differences in the sectors to be supported—with the NDP including the financial sector and retail and business services.

While both the NGP and the NDP call for changes in the labour market, their emphasis is very different. The NDP emphasises reforms that are designed to promote employment and the entry of first time employees in particular, while the NGP, in pursuit of decent work, seeks to impose considerable regulation on the temporary employment services sector. There are accordingly considerable differences in the concrete policies advanced for the labour market.

The NDP gives considerable emphasis to the need to promote new firm entry, principally through reducing the regulatory burden

Table 6: Key Policy Interventions

POLICIES	IPAP	NGP	NDP
Exchange rate	• Unqualified support for depreciation	• More competitive • Requires - fiscal restraint - accord on wages and prices	• No nominal devaluation • Conditions for effective devaluation do not exist
Development finance and capital subsidies	• Expanded DFIs • Investment subsidies	• Expanded DFIs • Investment subsidies • Development bond • State-owned bank for rural areas	• None advanced
Local procurement	• Unqualified support	• Unqualified support	• Caution on higher costs jeopardising growth
Sector support strategies	• Very wide ranging industrial policy, with an emphasis on beneficiation	• IPAP plus: - infrastructure - agriculture - mining - green economy - tourism - high level services	• Protect sectors with long-term prospects • Short-term support measures for industries affected by cyclical downturn • The financial sector • Retail and business services
Labour market	• No consideration	• Productivity accord • Tighten sub-contracting, labour broking, and outsourcing. • Support for workers in unorganised sectors to achieve greater organisation	• Youth Wage subsidy • Wage restraint • Regulation and subsidy to labour placement sector • Unfair dismissal not to apply for probation period • Simplify dismissal procedures • Migration policy reform to attract more foreign skills

IPAP and the NGP are very largely in agreement but differ, in important respects, from the NDP

Concluding remarks

While there are significant differences in the emphasis that they place on employment–for IPAP and the NGP, employment growth is the sole quantified objective while for the NDP there are other quantified goals and employment is seen as dependent on economic growth–the three strategy documents are in broad agreement that employment creation is the key objective of economic policy.

While there is some measure of overlap, significant differences emerge between IPAP and the NGP, on the one hand, and the NDP, on the other, in their respective characterisations of the trajectory of the South African economy and in the identification of the binding constraints on further development. There are additional differences in the identification of the economic sectors and activities—and of the characteristics of firms—that have the potential to create new jobs. These differences underpin and inform the different concrete policies advanced by the three strategy documents. IPAP and the NGP are very largely in agreement but differ, in important respects, from the NDP.

Clearly, if there is to be policy coherence in government, choices will have to be made about which set of policies is most appropriate.

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