



[Opinion](#) / [Columnists](#)

ECONOMIC POLICY

NEVA MAKGETLA: Why too much pulling in different directions is killing SA's growth story

'The government needs to accept economic policy is an extended negotiation'

BL PREMIUM

18 July 2017 - 06:01 Neva Makgetla



Picture: ISTOCK

The Mining Charter process illustrates everything that is wrong with how the democratic government engages with business.

Start with prolonged consultations, add unilateral changes just before gazetting, mix in months of open disagreement within government and end up with legal challenges and a half-hearted compromise.

And we wonder why business leaders say they are drowning in a stew of rhetoric, unmet promises and changing state priorities. This kind of contestation and instability in economic policy comes up against the hard realities of a mixed economy.

In SA, the government accounts for about a fifth of all production and employment. If it wants transformation, it must change business behaviour. That requires systematic, consistent and realistic changes to the ecosystem that shapes business profitability and investor decisions.

The organisation of government contributes to internal contradictions. For most state functions, there is a single department. But at least 10 departments act in the economic space — the Treasury, trade and industry, economic development, mineral resources, tourism, agriculture, rural development and land reform, labour, environmental affairs and small business. That's not counting the economic effects of education, immigration and infrastructure, or provinces and municipalities.

Many departments have great depth of technical expertise and knowledge. But each also has a separate mandate that links it to formal or informal constituencies. Their policy decisions largely reflect the urging of the groups they interact with most, which range from the National Economic Development and Labour Council stakeholders to advocacy groups to state-owned enterprises and individual companies.

This system in itself promotes policy incoherence. The ratings agencies demand restrictive, procyclical fiscal and monetary policies; manufacturers need more expansive state spending, especially on infrastructure, and lower interest costs to offset slow growth; workers want a fairer share of the pie; and black investors want increasing state support.

Contestation over these differences creates a cacophony that can drown out national priorities.

The economic and infrastructure cluster and the Cabinet are supposed to forge a unified economic policy, but neither forum has the capacity to undertake independent economic analysis, which limits their ability to police departmental initiatives.

The outcomes-based approach the government adopted in 2010 has been overtaken by a narrow focus on outputs, promoted by rigid annual performance plans. As a result, the visible slowing in GDP and employment growth since 2012 hasn't prompted significant policy changes. Instead, officials pursue projects that are often no longer relevant and that taken together are insufficient to revitalise the economy.

Contestation over these differences creates a cacophony that can drown out national priorities

The nine-point plan emphasises measures to accelerate the electricity supply, but the problem today is overgeneration as the metal refineries have downsized.

The introduction of a socioeconomic impact assessment system ensures that new policies are analysed more consistently. But technical information won't stop a risky policy if the Cabinet does not act on it.

Finally, SA's inequalities make it hard for the government to support business. It is difficult to justify the time and money to smooth the path for big business when the benefits to CEOs and shareholders are so disproportionate to worker pay and community gains.

In these conditions, many officials consider concerns about profitability to be selfish. Yet if a company doesn't make profits, it will close. The challenge in a mixed economy is to ensure that when firms make profits, they contribute to equitable growth by growing jobs and supporting local suppliers.

Accepting that the government can't just dictate economic outcomes doesn't mean giving up on transformation. But it doesn't help to alternate harsh attacks on business with panic-stricken promises to give companies and ratings agencies whatever they want.

The government needs to accept that economic policy is an extended negotiation. Parties only negotiate when none can achieve their ends unilaterally. State power is based on its democratic support and ability to provide infrastructure, education and technical standards. It is limited by the fact it cannot run the economy by itself.

Big business has technical, organisational and financial strengths that cannot easily be replaced. But it needs the state to ensure the rule of law and provide a range of services and regulatory frameworks.

Successful negotiations depend on consistency and realism about the balance of power. Transformation requires that the government develop far more disciplined and technically capacitated structures to develop, communicate and implement economic policy.

• *Makgetla is a senior researcher with Trade & Industrial Policy Strategies.*

