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NEVA MAKGETLA: How will we measure effect of economic package on daily lives?

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Adhering to the austerity strategy adopted a few years ago presents more significant challenges, says the writer. Picture: ISTOCK

The new economic package tries to thread the same needle as its predecessors. It has to reassure both established business, which benefits from the status quo, and the majority of voters, who don't — or who at least get far less. The interests of these two blocs are often divergent and frequently contradictory. To date, the government has generally ended up providing half-hearted or even conflicting measures, satisfying neither.

The new package hews to the tradition of making specific promises to reassure investors, with broader, vaguer proposals for everyone else. Business gets specific promises to eliminate high-profile regulatory blockages and improve infrastructure; global financial institutions and ratings agencies get a restrictive fiscal envelope.

Adhering to the austerity strategy adopted a few years ago presents more significant challenges. This package hopes to crowd in private investment, especially through partnerships.

The marked slowdown in the economy from 2014 was spurred by the simultaneous slowdown in government spending and investment. From 2011 to 2014, on an annual basis, public investment climbed 3.5% and general government spending 2.7%; GDP expanded 2.3% and private investment 3.5%. From 2014 to 2017, growth in government spending fell to just 0.7% a year and public investment to 2.5%. Annual GDP growth dropped to 1% and private investment shrank 1.6%.

The current package suggests that GDP growth will accelerate on the back of higher private investment instead of increased state spending. In effect, it reflects the diagnostic often voiced by business, which has tended to blame all economic ills on policy missteps and corruption. Now that the government is trying to address these factors, will investors actually come to the table? Will improving governance actually entice a step-up in private investment?

Innovative programmes to address the apartheid legacy are by definition risky. They require fundamental changes in existing programmes and economic systems, and they are often difficult to conceptualise. These challenges are compounded by the hard budget constraint.

The package risks over-reliance on public-private partnerships in infrastructure to drive investment. For 20 years it has proved almost impossible to find opportunities that are profitable enough to entice private investors and still meet public needs. SA's profound inequality means most citizens can't afford basic services, while higher tariffs for business may throttle growth. The Gauteng tolls underscore the pitfalls.

The package assures citizens that they too will benefit. This set of commitments centres on the minimum wage; measures to grow jobs and small businesses in agriculture, townships and rural areas; the redirection of spending to improve education and health; and fixing the municipalities. These proposals certainly go in the right direction, but except for the minimum wage they are either vague or a small scale. And therein lies a weakness.

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A crucial question becomes how the government will measure the package's success. It gives figures for infrastructure investment and targets for deregulation and the reallocation of spending but not for core outcomes around equality, job creation, education and municipal functioning. Without some sense of the scale of progress anticipated it is easy to drift into business as usual with a few projects added on.

SA's short democratic history is replete with examples of large promises to the poor that are never implemented. And that means business loses too, since profound inequalities ultimately drive slow growth and investment. Until they are addressed, no amount of fiscal restraint and regulatory good practice will boost the economy.

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