SARPN Southern African Regional Poverty Network

SELECTED COMMENTARIES ON THE
UNDP'S SA HUMAN DEVELOPMENT REPORT 2003

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* This selection of commentaries will be updated as and when relevant articles appear in the South African press

THE CHALLENGE OF SUSTAINABLE DEVELOPMENT IN SOUTH AFRICA

John F.E. Ohiorhenuan, Resident Representative, UNDP, Pretoria

Introductory Remarks at the launch of the South Africa Human Development Report 2003, Johannesburg, 5 May 2004

It is May 2004. Elections have been fought and won; South Africa has celebrated its first decade of democracy in the aftermath of an election that must be an inspiration to the world. The focus of the government and the people must now turn to delivering on the election promises: indeed to delivering on a better life for all in the foreseeable future.

In the ten years since the collapse of apartheid, South Africa has recorded impressive social and economic achievements. The remarkable progress in social transformation was the subject of our *National Human Development Report* for 2000. Two years ago, in the discussions and negotiations of the World Summit on Sustainable Development, South Africa, which was not even present at the Rio Summit, was accepted as a legitimate champion of sustainable development. In that role, it was vocal in asserting that sustainable development means much more than the environment; that it also meant poverty eradication and social justice.

In his State of the Nation Address of 6 February 2004, President Mbeki elaborated on a theme that has been constant in his presidency. He said:

> The work we will do must move our country forward decisively towards the eradication of poverty and underdevelopment … We must achieve further and visible advances with regard to the improvement of the quality of life of all our people, affecting many critical areas of social existence…(p9)

He could have been describing his vision of sustainable development for South Africa. It is in the spirit of this search for a better future that the *South Africa Human Development Report 2003* was commissioned. It tries to identify the main challenges to sustainable development in the country and define a strategic framework and policy trajectory which could help unlock people's creativity to meet those challenges. Our abiding interest in the theme stems mainly from the fact that South Africa's own transformation goals, as reflected, for instance, in the Freedom Charter, the Reconstruction and Development Programme and even in the party manifestos for the recent elections, are fully consistent with the vision of sustainable development.

Beneath its simple definition as a process that meets the needs of the present without compromising the ability of future generations to meet their own needs, sustainable development actually represents a dynamic interplay between economic, social, political, and environmental processes. It is a notion that generates a development policy framework within which poverty eradication, full employment, environmental responsibility, and the promotion of justice and equity are the dominant economic and social objectives. It is important to stress that the 2003 NHDR (National Human Development Report) did not set out to undertake a socio-economic performance appraisal of the country over the last decade. Rather, it sought to ask normatively, what it will take to achieve the development outcome that the country so explicitly desires.

The basic premise of the Report is that the sustainable development of any country can only be as effective as its people want it to be. It goes without saying that sustainable development requires a competent and capable state. But beyond that it is fundamentally an endogenous process, generated and sustained by the energy of society and its ability to learn creatively from its own and others' history. All sectors and stakeholders must be mobilized for sustainable development.

The report begins with a careful analysis of the past, since the current state of development is very much the product of the past. An analysis of the evolution of the economy and the trends in socio-economic indicators confirmed the progress that has been made and highlighted some recalcitrant challenges. For instance, absolute poverty has declined significantly, with the percentage of people living below the national poverty line falling from 51.1 percent in 1995 to 48.5 percent in 2002. However, the number of South Africans living below the poverty line of 354 rands in 2002 is still almost half of the total population (21.9 million people). The report also confirms that the Human Development Index (HDI) for the country has declined slightly over the last few years, currently registering 0.68 for 2002, compared to 0.70 ten years ago. The main culprit for the decline would appear to be a deteriorating life expectancy.

Furthermore, South Africa continues to be one of the most unequal societies globally, with a Gini coefficient of 0.635 for 2001, up slightly from 0.596 in 1995. Significantly, inequality has worsened within all racial classifications in South Africa but, comparatively less so within the "White" group. Significantly also, the average income in 2001 of a white household was six times that of an African household.

Unemployment too, continues to be a major challenge. Between 1995 and 2002, the official unemployment rate increased from 16.4 percent to 30.5 percent. Among black people, unemployment in 2002 was 36.8 percent, compared to 14.1 for others. Also, unemployment among women was 35 percent, compared to 27 percent for males. Most worrying perhaps, is the vicious cycle of poverty, inequality and unemployment in South Africa. For instance, a large majority of households who are poor are those who do not have even one working person. In general the high unemployment figures suggest that the labour market is not robust enough to serve as a proper bridge between economic growth and poverty reduction.

Based on these findings, the report identified five central challenges of sustainable development in South Africa. These are: eradicating poverty and reducing income and wealth inequalities; providing affordable access to quality basic services; ensuring environmental sustainability; reducing unemployment, and attaining sustainable high growth rates. An obvious, but critical dimension of the historical evidence is the fact that in the most basic sense, the apartheid economic structure was designed to exclude. It was not accidental that policies resulted in massive unemployment and poverty, particularly among the majority African population.

Against the backdrop of these structurally embedded socio-economic challenges, South Africa's policy responses over the last ten years appear to have been merely epiphenomenal in effect, if not in intent. It is precisely because of the structural nature of these pathologies that apparently radical policy interventions have not yielded the desired outcomes. Indeed, the inertia of history is so strong that policy has in some cases actually exacerbated the country's developmental challenges. It is this fundamental problem of path dependence which is manifest in a rising unemployment rate, a persistently high poverty rate and a weak growth path.

Accordingly, the Report argues that for South Africa to attain its sustainable development potential, it should consider a re-orientation of its economic structure to become more broad-based and equitable. This would imply for example, changing the labour market structure from its historical exclusionary basis to one that specifically provides incentives for labour absorbing modes of production. "Public works" may provide a short-term employment palliative. But, with such high unemployment rates, long run sustainability requires that employment generation be integral to and profitable in the private sector calculus. Accordingly, macroeconomic policy needs to specifically aim for job-creating growth.

Similarly, the poverty problem cannot be solved by "social policy" alone. Poverty reduction must also be integral to the process of macroeconomic policy formulation and implementation. In particular, policy must specifically focus on bridging the manifest divergence between growth and employment and build the capacity of the poor to participate in formal sector economic processes. In essence, the message of the Report is that structural problems require structural responses. Without meaning to be "ideological", it could be said that the market alone is not enough. South Africa requires a "market plus" policy regime.

The report's main recommendations include the need for changes in the determination of macroeconomic objectives and instruments to ensure that they promote growth, redistribution, poverty reduction and the creation of employment. For instance, a somewhat more expansionary fiscal and monetary policy matrix is needed to move the system toward more intensive economic activity and fuller capacity utilization. Appropriate macroeconomic measures also include providing space for the expansion of SMMEs, expanding the social security system, and increasing investment in social services and infrastructure. Industrial policy too, should aim to increase the labour intensity of production *inter alia*, through the withdrawal of explicit or implicit subsidies that favour capital-intensive and/or large-scale enterprises. To elicit developmentally oriented investment, businesses can be given differential tax incentives, access to subsidies, and access to government procurement, depending on the extent which their activities reflect support for a more broadly based transformation of ownership, improved distribution, and reduced unemployment.

The Report argues that these policy changes require strategic political interventions that focus on achieving the goals of sustainable development. It stresses particularly, the unlocking of society's creativity as an important pre-requisite to achieving sustainable development in South Africa. At the obvious level, specific challenges may be more easily overcome through the creative involvement of stakeholders in the formulation and implementation of solutions. But the Report argues that, at a deeper level, the adoption of a sustainable development strategy may be the real key to unlocking the creativity of the public. An inclusive policy-making framework, with processes that embody the major concerns of the various stakeholders is likely to produce the right conditions under which they can unleash their creative involvement in the development process.

Inferences abound in various chapters of the Report about ways in which government, business, and civil society organizations can interact more effectively in the sustainable delivery of social services, land reform, management of environmental resources, and so on. The Report emphasises the importance of engendering processes that are inclusive, transparent and democratic and, particularly, that empower the poorest sections of the population. The business of sustainable development in South Africa is too important to be monopolized or held to ransom by any one stakeholder, however powerful it perceives itself to be. It is quintessentially a challenge of social dialogue. Fortunately, South Africa is no stranger to the negotiated solution.

INPUT ON THE UNDP'S SA HUMAN DEVELOPMENT REPORT

Zwelinzima Vavi, General Secretary, COSATU

Remarks at the launch of the South Africa Human Development Report 2003, Johannesburg, 5 May 2004

For us, this document is critical, above all, because it reaffirms the central importance of overcoming poverty and unemployment and the need for a sustainable development strategy for South Africa. We are grateful for the work that the UNDP and the many researchers involved have put into the project.

This will contribute immensely to the democratic discourse in the country, in particular now that all of us are focused on finding solutions to the stubborn crisis that continues to afflict our economy ten years after we attained our freedom.

The report provides a wealth of data and insights. For us, the central finding is paradoxical: that since 1994 our government had dramatically improved services and social grants for millions of South Africans, but has barely dented the overall picture of poverty and inequality left by apartheid. Thus, the report finds that the poverty rate has fallen only from 51% to 48%.

We are encouraged by the extent to which the report exposes the inequalities that stubbornly remain part of our social and political life. These include the annual decline of wage share, which happens alongside a rise in unemployment, which increases annually by 2,8%, while annual growth rates for labour productivity and labour force rise at 4.1%.

The main reason for this has been growing un- and underemployment. Unemployment has risen dramatically to 30% using the narrow definition, and over 40% if we consider a much more appropriate definition of unemployment. Incomes from work have tended to stagnate. Meanwhile, conditions have also been worsened by the HIV/AIDS epidemic.

The question, of course, is why. The report's conclusions align with the experiences of COSATU members.

First, since the late 1980' investment and production have shifted steadily to capital-intensive sectors, which cannot provide jobs on a large scale. Thus while the economy has grown relatively rapidly in the past decade, is has created relatively few jobs.

Second, apartheid effectively let the majority of our people participate in the formal sector only as cheap labour. It achieved this through the inequitable allocation of infrastructure, the structure of the financial and retail sectors and inequalities in health and education, as well as the exile of millions to depressed rural areas.

A central insight from the report is that the failure to reverse these trends since 1994 arises from the tendency to adopt a “two-track” development strategy.

The democratic government moved decisively to shift spending on services to poor black communities. At the same time, it adopted economic policies aimed primarily at growing exports and holding down inflation, with an enormous belief that this would lead to poverty alleviation and job creation.

Critical elements of the government strategy included freeing up markets, commercializing and partially privatizing government services, cutting budgets and maintaining high interest rates.

These policies were inherently contradictory. In particular, job losses and cuts in overall government spending negated efforts to improve services for the poor. High interest rates slowed down investment.

We are pleased to note that government seems to have loosened on this strategy in the past three years. We have seen government adopting a more expansionary fiscal stance. Interest rates have come down and more emphasis put in the important role government must play to stimulate growth that will lead to more equitable distribution of income and wealth.

We welcome the ANC election manifesto’s commitment to policies which will create jobs and reduce poverty.

For COSATU, the critical issue is how we move forward to ensure more equitable, job-creating growth that will indeed benefit the majority of our people. We laid the basis at the recent Growth and Development Summit, where we agreed with government and organized business on important strategies to enhance job creation.

As a short-run solution, we agreed on expanded public works programmes as an important way to provide income support, while enhancing skills and integrating people better into society, especially the young jobless.

The UNDP report adds to this proposal by emphasizing the need to expand social grants and eliminate means tests. It shows that a basic income grant would have a stronger impact on poverty.

In the longer run, as we agreed at the GDS, restructuring the economy toward job-creating growth requires sectoral strategies. The UNDP report emphasizes this point. To develop sustainable strategies requires the involvement of stakeholders in each sector.

As the report points out, a critical element must be supply-side measures to support growth in light industry, with appropriate backward linkages to the resource sectors. It also emphasizes land reform in this context. We also need to think about how provision of social protection and housing can provide jobs and enhance opportunities for the poor.

Like the UNDP report, the GDS emphasized the need to integrate marginalized people by restructuring the financial sector, ensuring more appropriate and affordable education and better health, housing and services, as well as increased support for co-ops and other small and micro enterprises.

The UNDP report goes beyond the GDS in its focus on macro-economic policy. As it points out, the micro strategies we adopted at the GDS will only work if the state maintains an expansionary fiscal policy and relaxes monetary policy.

The current policy of inflation targeting leads to an excessively tight monetary policy. It involves very high real interest rates by international standards. That hinders investment and growth, and hammers local production by encouraging overvaluation of the rand.

As the UNDP report emphasizes, the restructuring of the economy requires innovative thinking, consistency, the prioritization of employment creation and equity.

Success will require a willingness to review fixed positions and past policies, commitment to open debate, and an understanding of the realities we all face.

COSATU is convinced that the country will not succeed in attaining the objectives of cutting unemployment and poverty by half in 2014 unless this fundamental review of our economic strategies has taken place, as suggested by the UNDP report. This report is an important contribution to achieving this aim, and we thank you again.

GOVERNMENT'S RESPONSE TO UNDP SOUTH AFRICA HUMAN DEVELOPMENT REPORT

Background notes, distributed by GCIS, (edited), 5 May 2004

1. INTRODUCTION

1.1 The UN Human Development Report (2003) assesses progress and challenges with respect to South Africa's sustainable development by examining trends in socio-economic development and policy-making. It focuses on 5 key issues:

- Poverty and inequalities
- Access to basic services
- Environmental sustainability
- Unemployment
- Economic growth

1.2 Overall, the Report presents findings that are in line with recent assessments of the performance of Government during the First Decade of Freedom. However, some of the statements and conclusions contradict other research on sustainable development issues, and the context that informs the analysis and conclusions is not sufficiently explained. There is little acknowledgement of progress made.

1.3 Challenges and shortcomings relating to statistical information, especially indices, are not discussed. Related, is incorrect representation of data and calculations in some instances. The following notes expand on these comments.

2. POLICY-MAKING AND IMPLEMENTATION

2.1 Though the Report mentions restructuring of government management after 1999, it claims that existing structures do not guarantee good integration. This underplays the importance and impact of the new Cabinet Committee system and the Director-General's Forum of South African Directors General (FOSAD) and cluster system, effectively introduced after 1999. There can be no doubt that these systems have contributed to more realistic planning and coordination, and better monitoring of progress in the development and implementation of national policy.

2.2 The representation of integrated national planning cycle in diagram (3.1) (p 11) has no reference to medium Term Strategic Framework (MTSF) and therefore does not explain that the MTEF presented in February each year is based on MTSF of the previous year, ensuring that political imperatives of government drive the budgeting process. For example the State of the Nation

Address now sets out government's programme in some detail, allowing for transparency and monitoring and evaluation.

2.3 Regarding economic policy-making, the Report does not explain the rationale of the macroeconomic proposals of GEAR. These were to lower government debt burden and inflation in order to make more funds available for developmental expenditure and to lower interest rates, which would encourage investment.

2.4 The Report's discussion of the RDP underrates the extent to which macroeconomic prescription of the RDP (1994), and Ready to Govern (1992) prefigures the macroeconomic policies of the GEAR (1996). Indeed this can be traced back to a 1990 joint ANC-COSATU document entitled "ANC and COSATU: Recommendations on Post-Apartheid Economic Policy." Several significant formulations were contained in this document. There was recognition of the importance of international competition in products, and the need to make South African production more competitive. While the responsibilities of the state were defined broadly, its economic role was defined more narrowly in terms of "some form of macroeconomic planning and coordination". There was a very strong statement of the importance of fiscal caution, concluding: "A future non-racial democratic government would not duplicate the recent practice of using borrowings to finance current state expenditure." Balance of payments problems and inflation are also to be avoided. All these formulations picked up on themes that were being debated in South Africa. These formulations were elaborated in Ready To Govern and the RDP base document. The document also referred explicitly to concerns about government dissaving.

2.5 The Macro Economic Research Group (MERG) document which the report refers to represented the presentation of the work of a group of economists who had been contracted to prepare economic policies for the consideration of the ANC. Many of the individual MERG projects were very valuable, but the final report did not contain a single coherent policy – rather it was an amalgamation of outputs of a range of researchers. Some of the cut-and-paste chapters were internally inconsistent. For this reason, the ANC and the ANC government always regarded the MERG report as a resource rather than a policy document.

2.6 For these reasons, the impression given by the Report that GEAR represented a capitulation to business interests and a departure from previous policies is misleading. The macroeconomic formulations of GEAR build on the prescriptions of the 1990 COSATU-ANC statement, Ready to Govern, and the RDP base document. The impression given by the Report on the issues of policy-making and implementation that the economic development view of the alliance partners has diverged is also misleading, is in fact wrong. COSATU's commitment to the GDS in June 2003, and its support for the ANC election manifesto in 2004 are clear signs that there are no major economic policy differences between government and its traditional partners.

3. DEVELOPMENT PROGRESS IN SOUTH AFRICA

3.1 With regard to the assessment of progress made in social development, the report focuses on education, heath care, housing, land and tenure reform, and the environment.

Education

3.2 With regard to statistics, the per capita expenditure cited on page 24 does not define the denominator. Hence, it is unclear if the denominator is the entire population or just eligible children. Moreover, per capita expenditure is not always a good measure since it is not age adjusted for net population growth.

3.3 The use of sweeping generalizations without quantification such as “sheer extent of backlogs…”, “de facto class differentiation”, “high failure, drop-out rates…”(p 25) and “staff shortages..” (p 32) leaves some important points vague, and therefore difficult to interpret.

3.4 Elsewhere in the Report there is much focus on quality issues but the fact that educational personnel expenditure has been increasing is made an issue without taking into consideration that since education is highly labour intensive, decreased personnel expenditure could compromise quality.

Health

3.5 The discussion on the health care sector is constructed mainly around HIV/AIDS and associated infectious diseases. Very little mention is made on progress in other areas.

3.6 Table 2.12 provides information on antenatal care access, but it only speaks to the public and private hospital facilities, to the exclusion of facilities outside hospitals. The implications of the fact that the public health sector is at least three times the size of the private sector are not discussed in discussion elsewhere in the report on the issue of comprehensive social security.

3.7 The conclusion reached from table 2.13 (identifying areas where human resource constraints have impacted on delivery of health care services) is not valid as there is no benchmark or norm available to make comparisons. It does not necessarily follow that a decline in the number of physicians or nurses leads to poorer quality care unless these levels have fallen beneath a basic minimum.

3.8 Overall this section is weakened by its failure to address paradigmatic shift from tertiary care to primary health care needs. It is therefore skewed towards the medical model as opposed to the public health model of examining access and outputs in the health care system.

Housing

3.9 There are several statements that are either too general and/or need further qualification.

3.10 For example, the Report advocates “adequate housing should enhance employment opportunity”. However, this statement fails to address whether housing supply is based on housing demand and as a result of the Constitutional Court judgments or whether it is a deliberate result of government relocation of individuals. Other statements that similarly need further qualification include “poor people need larger houses …” and “poor households … end up with less money” (p 35).

3.11 The discussion on single parent and couple parent families under the section on measuring poverty and human development (p 42) is an extremely Westernised analysis of families since most families in South Africa are extended families. The analysis does not add value to the argument around income poverty except maybe to highlight that without more than one adult in the family, there would be a greater risk of low social cohesion/social capital.

Poverty and Inequalities

3.12 The chapter on poverty and inequality seems to be very subjective and therefore a political exposition on what government should do rather than what is wrong. Also many of the recommendations are outdated since government has adopted many of these as policy well before the release of this document.

3.13 There is an underlying assumption that government has failed to intervene in the HIV/AIDS pandemic. There is no evidence in the Report to substantiate that. In any case, data on expenditure and the impact of the awareness campaign contradicts this.

3.14 The discussion around the issue of comprehensive social security focuses only on grants. It fails to take into account issues of social wage and community based health insurance. Thus the approach to human development in this instance is based only on welfare rather than social protection, which is inconsistent with the approach in other chapters.

3.15 On the issue of communal land, while it is admirable and desirable that communal land be used communally, no evidence is provided by the Report that this results in optimal use of the land. It must also be borne in mind that communal decisions especially around productive assets often are biased against women.

3.16 Regarding inequalities, the Report does not indicate whether the Gini coefficient presented on page 43 is consumption or income based.

4. GOVERNANCE AND ADMINISTRATION ISSUES

4.1 Under the heading "Implementation gap" the report suggests that there is a major gap between policy and its implementation in respect of both broad policy intent and the implementation of legislation.

4.2 In contrast, the findings of the Ten-year review indicate that the first years of the democratic dispensation were mainly meant to focus on the introduction of a new constitutional and legislative framework. This entailed the adoption of the new constitution in 1996 and the introduction of new legislation at the average of about 90 Acts per year in the first nine years; and it is now that the emphasis of government is increasingly shifting from policy formulation towards a much greater focus on implementation and not that there has been an implementation gap.

4.3 The Report emphasises the great advantage of a Medium Term Expenditure Framework (MTEF) as being that of a planning tool. This is somewhat incorrect. The MTEF is largely used to regulate and project future expenditure of all government departments and some of public entities. It is rather the Medium Term Strategic Framework (MTSF) that is being used as a planning tool in government. The MTSF contains all key priorities and programmes of government to which the MTEF projects all the future public spending of government departments.

4.4 As briefly discussed in 3.1, under the sub-heading "Strategic Decision-making", the concerns raised around quality of decision-making during the early years of democracy, have long been addressed. With the introduction of the Cabinet committees and FOSAD clusters in the second term (1999) of a democratic government, much has been achieved especially with regard to a common approach to service delivery in various government structures and also issues around long-term budget projections. They have also assisted a great deal towards an improved service delivery.

4.5 The section on overcoming deficiencies in data and information does not clearly highlight processes, methods or ways to overcome current deficiencies.

5. SPECIAL PROGRAMMES: GENDER, DISABILITY AND CHILDREN

5.1 In addressing the challenges of sustainable development in South Africa the Report surveys progress in a number of socio-economic and developmental sectors, what it considers implementation gaps; and issues of poverty and inequality. Embedded within this texture are a few salient references to the dimensions of gender-disability-children in the challenges facing sustainable development in South Africa.

Gender

5.2 With regard to the Gender Empowerment Measure (GEM), reference is made to the fact that "its focus is on participation measuring gender inequality in key areas of economic and political participation and decision-making ... tracks the percentages of women in Parliament, among senior officials and managers among professional and technical workers" (pp 46-47). However, the only GEM figures cited are from 1995 though this report is the 2003 South African HDR. Nor are any tables devoted to reflecting GEM data.

5.3 On the issue of land restitution, reference is made in the section on "Development Progress in South Africa" that "a specific gender policy was put in place in 1997 to ensure that land reform meets the constitutional and other legal requirements for gender equity" (p 36). But the accompanying land restitution tables do not reflect gender breakdowns under "land restitution", "expenditure on restitution" and "restitution and land reform".

5.4 Under the discussion on "Advance tenure reform" (p 91), it is recommended that the principles of 1997 White Paper on Land Policy should be followed in constructing multi-stakeholder structures; principles that "stipulate that there should be full participation by women and by poorer sections of the community", prices that need monitoring by the state and support in terms of capacity-building and empowerment. Though it is not elaborated upon it is a valuable reference in terms of prioritizing, monitoring and evaluation in programme implementation, with reference to rural women and women's participation in the agricultural sector.

Disability

5.5 The only treatment of this programme area is in a comparative context with other government grant programmes in the "Poverty and Inequality" chapter. The disability grant programme is cited as being the most effective of the government's three grant programmes after the old age pension programme and before the child support grant. "The significant differences in the relative effectiveness of grant programmes on head-count poverty are due mainly to the large differences between the amount of the child support grant and the two other grants,. The amount of the child support grant is about one-fourth of the grant amount for old age pension and disability grants ..." (p 89).

Children

5.6 With regard to children and child development, policy and programme developments are discussed with reference to the issue of South Africa establishing a "comprehensive social safety net" (see above reference to the disabled), the environmental policies are strategies with respect to children's rights and the highlighting of provincial management capacity constraints, using early Childhood Development as a case in point. Beyond children, broadly speaking, there is no discussion of the critical youth (adolescents and young adults) dimension of sustainable development. This is a major omission.

5.7 In discussing the comparative effectiveness of government grant programmes the Report presents the child support grant as the least effective of the three that are mentioned, relating this to the comparative amounts of the grants. Child support is also addressed under "Establish a comprehensive Social Safety Net" which addresses the March 2002 report of the Committee of Inquiry in a Comprehensive System of Social Security for South Africa; that fact that within the context of conclusions and recommendation so prioritizing "the needs of people without any, or with insufficient, income, including encompassing those in the informal sector", it would imply "the extension of the child support programme to poor children between 9-18 years who are currently covered by the grant .." (pp 90-91).

5.8 In terms of post-apartheid environmental policies and strategies, it is noted that "other fundamental rights, including a set of specific rights for children, significantly strengthen the environmental clause in the Bill of Rights", making specific reference to the "rights of children to 'basic nutrition, shelter, basic healthcare services and social services." Given the strong link between environmental degradation and the absence of key basic services for many poor South Africans this is a powerful statement on the rights of children to an environmentally sustainable life (p 129). Beyond this reference, there is no assessment of enforcing and implementing children's rights under this environmental provision nor are recommendations made.

RECOMMENDATIONS

5.9 With regard to the recommendations, there is no specific reference to gender, disability and children dimensions of sustainable development. Rather, recommendations are devoted to a rather technocratic discussion of "pro-active growth-oriented macroeconomic management." "Fiscal policy for growth and development", "monetary policy for growth", "making productivity, growth and investment more profitable", "increasing investment", "mobilising greater domestic resources" and "maintaining macroeconomic balances". The fact that sustainable development, especially in the three programme areas under discussion requires participation is a critical dimension not reflected in the Report's concluding section.

6. ENVIRONMENTAL SUSTAINABILITY

6.1 The report gives a broad overview of the environmental legacy of apartheid such as forced removals, overcrowding in Bantustans, inefficient resource flows, unjust land use practices etc; all contributed to environmental degradation and the alienation of people and their land resources. This is followed by a discussion on post-apartheid policies and laws introduced to address this legacy. It highlights in particular: the Constitution's guarantee of environmental protection, the National Environmental Management Act of 1998, policy positions espoused in the RDP, ISRDP and local IDPs.

6.2 The discussion of the shortcomings within these policies and strategies recognizes the centrality policy gives to sustainable, environmentally friendly economic development, but argues that the introduction of GEAR represents a setback in this commitment as the macro-policy environment limits the capacity of the state to intervene more effectively in the lives of poor people.

6.3 The recommendations regarding the environment to a large extent reflect current government thinking on these issues and to a large degree are being addressed. The critique as it relates to GEAR and the macro environment is inappropriate, if GEAR is seen in its proper context of the need to ensure a stable macro environment to ensure sustainable delivery (see above).

7. THE ECONOMY AND JOB CREATION

7.1 The assessment of the performance of the economy and the findings are similar to other recent assessments. The main missing element, with regard to the economy and jobs, is the legacy of the past and the role that it has continued playing, particularly regarding economic growth.

7.2 The pro-poor economic growth framework proposed in the Report seems very much to be what the democratic government is pursuing. The key issue that the Report fails to capture is how to accomplish the long list of activities that it suggests that Government should undertake. Trade-offs associated with policy choices are not discussed. The time-periods (e.g. short-run versus long-run) for economic policies and programmes are not given.

7.3 The discussion on economic indicators and trends does not explain why trends have been or are happening. There are some problems with some of the data (i.e. Quantec data on employment) used to reach certain profound conclusions. Related to this the Report carefully selects issues and data for purposes of pursuing a particular view. For example, we know that the economy created about 2 million jobs since 1996. Nowhere are such data and issues discussed. Lastly, there are also inaccuracies with the interpretation of stats. For instance, it does not follow from figure 7.2 that "half of the employed is underemployed" (p 147).

THE UNDP RAND

Kevin Davie, THISDAY, 7 May 2004

It was an exciting time to be a journalist when Nelson Mandela came out of jail. A new government was on its way, bringing a whole new vision for the economy.

There was a lot of concern among businessmen about what this government would do. There were even attempts to tidy up some laws quickly before the new lot took power.

One debate, which seemed to have its origins at the International Monetary Fund (IMF), was the idea that government should use inflation targeting as the cornerstone of monetary policy. The idea was that this would be a straitjacket which investors would love.

In time this policy came to be implemented so that Tito Mboweni spends his days at the Reserve Bank looking at a single screen of data: inflation. He worries not a jot about growth, exports, jobs, inequality, unemployment or investment.

He has done a good job. Inflation is at levels most South Africans would not have thought possible – ever. The world has applauded.

But it has not invested.

Trevor Manual has had a wider economic responsibility and has also done a good job in stabilising an unhappy situation, implementing tax and other reforms.

Alec Erwin has overseen the cutting of protective tariffs and the development of specific export industries such as the automotive industry. He too has done a good job.

There is much to be proud of.

The measurement of unemployment has caused some recent debate. My take is that government is right in claiming that substantial new jobs have been created on a net basis.

But it too will agree that the economy is not creating nearly enough jobs for new entrants on the market – never mind dealing with the backlog.

As noted by the United Nations Development Programme (UNDP) report on South Africa released on Wednesday, unemployment is at unacceptably high levels while inequality is widening.

It is clear that inflation targeting is not working. It keeps interest rates high, overvalues the rand and puts a squeeze on exports (read: jobs) while giving currency speculators a profitable ride on one of the world's mot traded currencies.

If you have any doubt about the folly of this single-faceted approach to monetary policy, stop and consider whether Alan Greenspan would use inflation targeting as the be-all and end-all of his job.

Combating inflation is clearly a very important part of what a central banker does, but it is part of the mix, not the only ingredient.

The UNDP says interest rates in South Africa are significantly too high and that the rand is too strong. It says this comes from focusing on inflation rather than real growth in gross domestic product (GDP).

Real growth is the increase in economic activity less inflation, so combating inflation remains in the matrix.

By putting growth first, the UNDP is recognizing that unemployment is South Africa's key challenge.

It sees the potential for greater debt as a potential of GDP and a higher Budget deficit. Capital spending, which will produce long-term revenue flows, should be separate from this deficit, it says.

The government is already embarking on fiscal expansion, which it can now do after ten years of conservative economic management. The UNDP sees room to do more.

The government has poured cold water on the so-called Brenthurst Initiative, an idea promoted by the Oppenheimer family, which would reward investment in transformation with tax incentives.

Ten years after apartheid the UNDP says incentives favour capital rather labour intensity. Examples are special depreciation write-offs on capital equipment. It wants subsidies, on a limited-time basis, to encourage labour intensity.

This should be obvious given the scale and low level of skill of the unemployed, but the issue is hardly ever raised.

The government does not like incentives and subsidies even though they are common across the world, especially in countries which have run successful export strategies.

I guess government does not like subsidies because the IMF does not like them because they raise the spectre of too much government interference.

The UNDP is very different to the IMF.

The IMF worries about financial management, currency stability, debt servicing, that sort of thing.

The UNDP is concerned with development.

As noted by a UNDP spokesperson at the release of the report, South Africa, a developing country, is running the economic policies of the developed world. So monetary and fiscal policies are prudent, inflation is more than respectable, but growth is dismal, and unemployment and inequality are worsening.

The beauty about what the UNDP is preaching is that its advice is not academic. It is based on the working experience of successful developing economies across the globe.

Its report does not quantify the growth rates its policy recommendations would bring, but in interviews the authors suggest the current two percent growth could leap to six percent or above.

We would go from near the bottom of the table of developing economies to near the top.

Put in monetary terms this four percent differential would translate this year into R52 billion more economic activity. Think of the extra income the government would get from VAT and corporate tax.

What is truly remarkable about the UNDP proposals is that no significant political constituency in South African would oppose them.

Business too often rabbits on about the need to reform the inflexible labour market.

The UNDP does not even mention labour as an issue in its 295-page report.

What we need now is for the government to say that the IMF-type approach served us well while the place was being stabilised and that we're heading now for the stratosphere.

We're signing up with the UNDP.

LITTLE BENEFIT FOR THE POOR FROM ECONOMIC POLICY

Neva Makgetla, Economist, Congress of South African Trade Unions.
Business Day, 7 May 2004

The United Nations Development Programme's (UNDP's) recently released Human Development Report for SA provides a great deal of data as well as critical insights into SA's evolution since 1994.

Like the presidency's 10-year review last year, it gives a broad overview of the first 10 years of freedom. The reports differ in important aspects, but they agree that, in future, economic policy must do much more to prioritise job creation and equity.

The UNDP report argues eloquently that sustainable development requires integrating policies to achieve growth with those intended to support equity and employment. This contrasts with some multilateral agencies' tendency to treat antipoverty programmes merely as a way to ameliorate the negative effect of conservative economic measures.

The UNDP concludes that income inequality in SA worsened after 1994, essentially because of soaring unemployment. As a result, despite economic growth and government efforts to extend basic services, the population living below the poverty line fell only slightly, from 51% to 48%.

The report finds a rapid deterioration in the relationship between growth and job creation from the mid-1990s, with a shift toward capital-intensive sectors such as minerals.

This trend emerged despite falling unit labour costs. (In this, the report contradicts the Reserve Bank's contention that unit labour costs have been rising.)

The report argues this situation ultimately resulted from a "two-track" approach where economic strategies were not "articulated from the perspectives and requirements of a pro-poor growth strategy. Other parallel (antipoverty) initiatives have been added on ... to respond to the developmental needs of SA."

The report concludes the two track approach cannot work as, "in practice, the two tracks hardly ever converge, mainly because some elements of the core economic reform and outcomes (eg, high interest rate, cuts in the budget, low investment) dominate and condition the scope of success for the majority of parallel (developmental) reforms".

Specifically, the report argues the budget cuts of the late 1990s and continued high interest rates in terms of global standards slowed growth and limited services for the poor. Also, government's efforts to support exports

effectively favoured capital-intensive activities, for instance by encouraging changes in work organisation to cut costs, and jobs.
Unfortunately, the report effectively ends in about 2002, so it does not fully capture important policy shifts that started just before then. In particular, circa 2000 government adopted a more expansionary fiscal policy, which should accelerate service provision for the poor as well as better stimulating the economy.

Thus, while spending per person in real terms remains below 1995 levels, as a useful table in the UNDP report shows, it has at least increased significantly since 1999. Still, there is no doubt the report identifies important trends and shortcomings. In taking its insights further, perhaps the most challenging area is the call for sector strategies.

The report argues these strategies are crucial to restructure the economy toward job-creating growth. This conclusion echoes the agreements reached at the growth summit last year. Now we need to move beyond the principle and unpack this proposal in more depth. We need to ask:

- How stakeholders can be involved in order to ensure sustainable proposals;

- How government can do more to give leadership to the process, and co-ordinate its policies to support sectoral proposals; and

- How we can balance the need to maintain international competitiveness in key sectors with the need to support production for the domestic market in order to create jobs and raising living standards for the poor.

It would also be useful if the research papers used in the report were published. Otherwise it proves hard to track the evidence supporting some conclusions.

While there will be debate about the details of the report and its finding, there can be no doubt of the validity of its core finding.

Above all, it reaffirms that SA's extraordinarily high level of unemployment reflects not problems in the labour market or a simple mismatch in skills, but rather the structure of growth and the historic marginalisation of most of the population.

That points to the need for an integrated social and economic development strategy to transform these structures.

RESEARCH OR ADVOCACY?

Minister Essop Pahad, Minister in the Presidency
Sunday Times Business Times, 9 May 2004

Reading the UN Development Programme's latest Human Development Report for South Africa is disconcerting on several counts.

The UNDP's annual international survey of human development has its difficulties, mainly to do with challenges and shortcomings relating to statistical information, especially indices. But its thematic surveys of global trends and challenges bring much that is of value to the citizens and governments of member countries, benchmarking not only progress but also shortcomings.

But the latest report on South Africa is another matter. It preserves the format of a data-driven reflection on trends and challenges, combining the standard UNDP tables with comment and explanation. Upon reading, however, the format turns out to be a thin disguise for polemic and advocacy of a particular view - and not the institutional view of the UN but of a team of researchers.

It is not a case of the United Nations - "not known for strident criticism" as THISDAY notes - intervening in the policies of a member state, as most media reports suggest, but individual researchers using this platform.

Ironically the findings are in line, overall, with recent assessments of government performance. But there is a disjuncture between most of the findings and some of the statements and conclusions drawn, and numerous generalisations without quantification.

The pro-poor economic growth framework proposed in the report, after being shorn of some of the ideological declarations of the researchers, is essentially in line with what the government is pursuing.

However, by a sleight of hand, the report presents itself as a UN warning of the need for major policy changes if the challenge of poverty is to be addressed.

In a number of other places, policy proposals are made which have long been in place, suggesting that some of the work behind the report is not that recent.

And while there is an acknowledgement of the progress that freedom has brought, it is understated and, in critical areas, ignored.

It is not possible in this space to do justice to either to what is of value in the report or to what is misleading or incorrect. Only a few salient points can be addressed.

A chapter on Policy Making and Implementation claims that existing structures do not ensure integration. But it underplays the impact of the new clustered system of Cabinet Committees and the Forum of South African Directors-General introduced in 1999, in increasingly realistic and integrated planning, implementation, monitoring and evaluation.

Its account of the national planning cycle altogether omits the critically important Medium-Term Strategic Framework, which puts political imperatives at the heart of the budgeting process.

What the report has to say on unemployment is illustrative of the selection of issues and data for purposes of pursuing a particular ideological view among the researchers. The most authoritative statistics have shown that the economy created about two million net new jobs since 1996, but that it has not kept pace with exceptionally fast growth in the labour force over the same period due to social trends that have emerged as part of the transition. Nowhere are such data and issues discussed. Yet no assessment of government's policies for creating jobs could even begin without taking stock of these trends, their causes and implications.

The report also says that inequality is increasing - but takes no account of critically relevant data.

There are two issues here. One is the significance of changes in household income as opposed to individual income. Given the exceptionally fast increase in the number of households from 1996 to 2001 (30% compared with population growth of 11%) - and corresponding decrease in the size of the average household - it is necessary to take this into account before drawing conclusions about inequality on the basis of changes in household income. The report does not, however, address this issue.

Nor is there any reference to research findings on how inequality is being reduced by the social wage, through targeted government spending on social services such as housing, electricity, clean running water and social grants - pensions, disability grants and child support grants. Grants formerly allocated on a racial basis have been equalised, and extended to all in need who qualify.

To recap the findings of government's Ten Year Review: targeted government spending between 1993 and 1997 saw social spending increase for the poorest 60% households - especially the poorest 20% - and decrease for the 40% who are better off.

The trend continues to this day. The research showed if the value of the benefits of social spending are taken into account, and not just income, the effect of social spending is substantially to reduce inequality.

Also revealing is the mistaken account of the development of government economic policy and its objectives.

In particular the report does not explain the rationale of the macroeconomic proposals of the Gear policy. These were to lower government's debt burden in order to free resources for development expenditure. The fruit of this approach is seen in the sustained real increases in social spending in the past three years.

Coupled with this is an understatement of the extent to which the macroeconomic prescripts of the Reconstruction and Development Programme and Ready to Govern prefigure the Gear macroeconomic policies, giving the misleading impression that Gear represented a departure from previous policies.

This misrepresentation of history sets a context for the impression that major policy changes are being proposed when, as noted, the pro-poor framework proposed is broadly that of government.

But critically, while purporting to advocate changes, the report does not address how to accomplish the long list of activities that it suggests government should undertake. Trade-offs associated with policy choices are not discussed. Time-periods -- short-term versus long-term and so on -- are not given.

Given the scope and complexity of the report with its impressive array of tables, it was perhaps difficult for the media to absorb and digest its contents before reporting on it.

However, it is surely important to be a little more circumspect before headlining the report as a call from the UN to the South African government to change its policies in order to achieve its goals!

Besides, this is not how the global body works. Hopefully UN headquarters will learn from this experience of what is actually an embarrassment, where its name is used in vain, especially by commissioned researchers intent on advocacy.

IT IS THE QUALITY OF ECONOMIC GROWTH THAT MATTERS

John F.E. Ohiorhenuan, Sunday Times, 9 May 2004

With a new team at the helm of government, it is to be expected that there will now be more focus on policies aimed at dealing with unemployment and poverty, since these were the issues that predominated in the run-up to the elections.

There is consensus that job creation remains South Africa's biggest challenge as unemployment continues to rise unabated. The economy provided only 11.56 million jobs for 16.81 million economically active people last year, resulting in 5.25 million or an official rate of 31.2% unemployed. This is substantially higher than the 19.3% unemployment rate in 1996.

The latest Human Development Report for South Africa, titled The Challenge of Sustainable Development in South Africa: Unlocking People's Creativity, offers some suggestions on how government and the private sector can work together in dealing with unemployment and other challenges.

The report suggests that the current economic structure and policies may not be conducive to creating sufficient employment among both the skilled and unskilled. As a result, the unskilled unemployment rate remains extremely high and the rates for skilled categories of labour have also increased significantly. The reason for such high unemployment may be found in the private sector and policy biases towards capital-intensive and large-scale enterprises as well as in market failures, and a decline in the employment intensity of growth.

Urgent attention must be given to economic growth that creates greater employment opportunities and to matching skills to the jobs that are created. Consensus must be reached among government, business and labour with regard to the goals and means of achieving technological progress. Technology must be conducive to maximum productivity and employment creation.

Policies that increase the labour intensity of production need to be adopted, by, for example, withdrawing explicit or implicit subsidies which favour spending on machinery and/or large-scale enterprises. Some of the requirements are: sector-specific strategies aimed at promoting labour absorption; policies to reduce the cost of living; the extension of the Labour Relations Act to the informal economy and the promotion of micro-enterprises.

The Human Development Report argues that while high economic growth is essential, it is the quality of that growth that matters if South Africa is to achieve its sustainable development goals. Quality is defined by the extent to which growth is accompanied by improvements in the distribution of income and wealth, reduction in poverty, and increases in employment opportunities.

Both past and present strategies focused on rates of growth with little or no attention to the deteriorating quality of economic growth in South Africa.

The report suggests a framework that is designed to achieve and sustain high growth and which would simultaneously reduce unemployment, poverty, and income and wealth inequality. Policy proposals include:

Changes in the aims and utilisation of fiscal and monetary policy to ensure that they promote growth, redistribution, poverty reduction and the creation of employment. Expansionary fiscal and monetary policies should be used to move the system in the direction of higher economic activity and fuller capacity utilisation. Such measures would also create the necessary space for the expansion of SMMEs and the social security system, and increased investment in social services and infrastructure; and

Increases in public investment and adoption of policies that induce higher levels of development-oriented private sector investment. This includes the development of an incentive system that rewards investment by businesses whose activities reflect support for a more broadly-based transformation of ownership, improved income distribution and reduced unemployment. This is similar to the recent Brenthurst Initiative, which emphasises the importance of providing differential rates of corporate tax to encourage businesses to "transform" and increase investment.

In addition to pursuing a reduction in unemployment and achieving and sustaining high growth rates, the report identifies three other key challenges that should be tackled jointly with the private sector and civil society. These are: eradicating poverty and extreme income and wealth inequalities; providing quality and affordable basic services to all; and promoting environmental sustainability.

Almost half the population (48.5%) live below the national poverty line, which was R354 per month for an adult in 2002.

South Africa continues to be one of the most unequal societies in the world, in terms of the distribution of income. In 2001, the average annual expenditure of a White household was six times more than that of an African household.

The report argues that the problems of poverty and inequality are intractable unless unemployment problems are resolved and policies improved. More resources should be allocated to the expansion of the social safety net, basic services and land reform, and more emphasis placed on fighting the HIV/Aids epidemic. More effort needs to be made to include participation of civil society organisations to combat poverty.

Since poor people tend to be most directly dependent on natural resources and suffer most when water and air are polluted, the report proposes environmental policies to combat poverty.

Other recommendations on how to counter poverty and inequality include:

A more intensive programme of land reform with more resources and a better link to a broader package of basic services;

Consistent and comprehensive implementation of all aspects of a multi-sectoral and multi-stakeholder anti-HIV/Aids programme that includes prevention, treatment and care, and mitigation of the impact of HIV/Aids;

The expansion of the social security system to include the extension of the child support grant to poor children between nine and 18 years, providing income support to poor adults, and increases in the real value of social grants in the medium term.

But the key to achieving South Africa's sustainable development goals is unlocking people's creativity. T he development of any country can only be as effective as its people want it to be.

AGENCY'S REMEDIES' FALL SHORT

Iraj Abedian, Chief Economist, Standard Bank Group

THE 2003 Human Development Report on SA by the United Nations Development Programme (UNDP) provides disappointing reading.

On the face of it, the report captures an awful lot all South Africans agree on poverty is widespread, unemployment far too high and the wealth distribution gap too wide and too racially defined.

However, when it comes to policy analysis and recommendations, the report falls short on a number of counts, particularly on the issue of sustainability.

This is ironic for a report (and the UNDP as a body) that boasts of its focus on "sustainable development". Upon finishing the report, I am once again reminded that broken clocks tell the truth some of the time, and that is about it.

The key technical fault lines of the report may be divided into five categories.

Globalisation is ignored. Conspicuous by its absence is a coherent discussion of the globalisation process and the limits it places on the economy and policy options both in the private and public sectors. Nowadays, no report and policy discussion can be taken seriously if it is not contextualised within the ever-widening globalisation process.

Assume that we adopt the report's antitrade liberalisation (and antiglobalisation) recommendations. What would happen to domestic and international investor perceptions? How would we close the productivity and technological gap? What would happen to the investment savings gap?

Given our effective market size, how would we achieve economies of scale in industries where we have comparative advantages? None of these issues is discussed; never mind exploring their national welfare implications with respect to job creation and poverty alleviation.

Macroeconomic stabilisation is taken for granted. The report falls dramatically short in taking into account the importance and the technical requirements of macroeconomic stability. There is hardly a paragraph assigned to the significance of and the limits imposed by macroeconomic stabilisation conditions.

Precisely because of the report's alleged concerns about "sustainability", we need to worry about macroeconomic stability. When macro stability is compromised, the poor and the working class suffer most. In other words, when price instability prevails, high inflation rules, government finances exceed their sustainable limits and currency instability ensues, the poor and the environment in which they live suffer enormously.

This much the UNDP should by now know. Yet, the report dishes out policy recommendations that if pooled together would culminate in a situation that would make the southeast Asian crisis of 1997-98 look like a picnic.

Budget constraint is assumed away. Disregard for macroeconomic stability is mirrored in a lack of appreciation of budgetary limits within which public policy must operate.

Decades of trial and error should have taught us that if governments' strategic plans are to be taken seriously, they must rest on available fiscal resources and institutional capabilities.

The report, to the contrary, highlights that: "It is important to avoid policymaking through the budget." (p 58). In this regard, the report commits two fundamental errors. One is that it assumes that policymaking in SA is made through the budget. It takes as a fact the urban legend doing the rounds in the past few years that all line ministries have been dominated by the treasury with regard to sectoral policy priorities and it is simply left to the treasury to take care of everything planning, fiscal allocations, and policy co-ordination. However, this is far from the truth.

The second error is the report presupposes there is a way to avoid budgetary trade-offs. The reality is that managing trade-offs is integral to good, effective macro planning. Modern, successful governments are ones that openly and professionally manage such fiscal tradeoffs, as opposed to fudging them in a highly politicised process, as the report's recommendations would bring about.

Contradictory policy recommendations are offered. To its credit, the report offers a list of policy recommendations in each of the major focus areas such as growth, poverty alleviation and job creation. However, many of the recommendations are contradictory. Apart from the overall inapplicability of its policy paradigm on macrostability, some of its specific policy recommendations are also at odds with one another.

For example, whereas the report on page 160 acknowledges that "insideroutsider rivalry" among unionised and unemployed workers can contribute to poverty, it goes on to suggest informal sector workers need to be unionised.

It would have been befitting for the report to quantify what would have been the quantum of social welfare loss for the poor if its recommendation of extending the Labour Relations Act to the informal economy were to be implemented.

Ideological biases prevail: To students of public policy in the past decade it is abundantly clear that, as in this report, ritual ideological biases against Gear, globalisation, trade liberalisation and the like are allowed to colour technical judgment and factual observations.

The report thus ends up adopting a "don't confuse me with the facts" approach. How else would one explain the recommendations that incentives for job creation should be given, that government procurement policies should favour labour-intensity, and that government investments should be increased to create jobs and promote growth?

The fact is that since 1996 (and in terms of Gear itself), government has offered tax incentives for job-creating ventures, especially in the poverty-stricken regions. And government has been offering a substantial premium for labour-intensive techniques in its procurement policies. And tax incentives have been offered for "inner city developments", small businesses, and the like.

It would have been more technically useful if the report quantified the effectiveness of such policies instead of pretending as if such policies are new or had never been considered.

To discuss the policy options for SA and offer a host of inapplicable "motherhood and apple pie" recommendations is fascinating; albeit unbefitting of the UNDP. I submit such an approach is not good for the credibility and sustainability of a multilateral institution.

MANUEL SLATES 'FLAWED' UN REPORT ON ECONOMIC POLICY

THISDAY, 11 May 2004

Finance minister Trevor Manuel has spoken out strongly against what he describes as a "flawed" United Nations Development Programme (UNDP) report on the government's economic policy.

"There are clearly in a report like that going to be some issues that we must take stock of," he said in an interview with THISDAY yesterday.

"My concern is that the UN must be careful not to place almost every policy maker in a position where the rest of the report is so flawed that you have to throw the baby out with the bath water."

Manuel has not previously responded to last week's report, which calls for more government spending and a looser interest rate policy to push up economic growth to six percent and accelerate employment creation.

Both debt reduction, achieved through limits on government spending, and inflation control, achieved through tight monetary policy have been central to Manuel's programme of macroeconomic stabilisation over the last eight years. Non-governmental organisations and the trade union federation Cosatu, as well as some economists, have said that this approach curbs economic growth by limiting investment in the productive capacity of the economy.

Manuel pointed out that the report's key drafter, Asghar Adelzadeh, had always had an "NGO perspective", and had made reference to weak and abstruse research to buttress his conclusions about the government's delivery record and its macroeconomic approach.

"My concern is that if Asghar had been writing this stuff for [Cosatu affiliate] Naledi, or one of the other think tanks it would have been an NGO thing. But it now carries the imprimatur of the UN, a UN that doesn't have a refined methodology."

The report, he said, was not only slanted but also relied on data that might be flawed, including HIV-Aids statistics.

Manuel said there was room for debate over key policy issues, including the inflation targeting approach and the nature of the South African labour market. But he warned that is was impossible to achieve development goals without macroeconomic stability.

Adelzadeh was not available for comment yesterday afternoon.

STILL TWO NATIONS

Zwelinzima Vavi, THISDAY 12 May 2004

We are proud of the advances we have made the past ten years. They far outweigh the setbacks we have suffered. That is our point of departure as we engage with the report of the United Nations Development Programme (UNDP) released last week.

This year in South Africa has been dedicated to the celebration of our hard-won freedom and democracy. But some people have a lot more cause to celebrate than others. The UNDP report reveals that, at one extreme, 21,9 million people — 48,5 percent of the population — still live in poverty, only slightly less than in 1994 (51 percent).

The Sunday Times reports that, at the other extreme, there are four times as many super-rich people in South Africa today as in 1994. At least 690 people are now worth R200 million or more. The Congress of South African Trade Unions (Cosatu) is not shocked by either report. They confirm what our members and communities experience on a daily basis.

The UNDP report in many respects vindicates Cosatu, as well as the central message of the tripartite alliance election campaign that made poverty alleviation and job creation priorities. It proves the correctness of our historic stance on economic and social matters, and what we and others have been saying for many years — that South Africa is one of the most unequal societies in the world. The UNDP report confirms that unemployment remains the central cause of poverty. It has risen dramatically from 19,3 percent in 1996 to 31,2 percent using the narrow definition (over 40 percent if we consider the expanded and more realistic definition).

But it also confirms that poverty is not confined to the unemployed. It is increasingly experienced by the working poor, many of them Cosatu members. Half of the employed are in poor-quality jobs. They form part of the 48,5 percent who are trapped in poverty. There has been an annual decline of the “wage share” — the share of national wealth that goes to workers. The share of national income going to profits is on the rise.

Also, gender and racial inequalities remain in the workplace. The department of labour reported back in 1998 that “managerial and director positions continue to be overwhelmingly dominated by men — 87 percent of executive director and senior management positions are occupied by men”. Little has changed since then. The apartheid wage gap has still not been resolved. In fact the wage gap in the private sector has increased. The old racial imbalances remain firmly in place.

There is also a widening gap between countryside and town as more people migrate from the rural to urban areas, driven by economic desperation in their home villages. The gulf between the poorest and richest South Africans is actually widening. The Sunday Times revelations destroy the theory that making the rich even richer results in a "trickle-down" effect that benefits the poor. The opposite is the case. Wealth has actually percolated to the top, making the biggest shareholders even wealthier, while the poor get nothing.

The economy remains dominated by a white, male, super-rich elite, while the majority survives in dire poverty. Cosatu recognised this reality five years ago, when our sixth national congress launched a jobs and poverty campaign. On May 10 2000, we brought millions of workers on to the streets in a general strike against the massacre of jobs and the rise in poverty.

"The poverty of our people is deepening," said Cosatu in 2000. "Only half of all households in South Africa have a family member who works. On average each wage earner must support 10 people. Without a social security safety net, every retrenchment of a single worker plunges 10 others deeper into poverty. "HIV-Aids, TB and other diseases are rampant in conditions of poverty. It is only capital that profits from job losses. Poor living standards and high unemployment create a pool of unemployed [people] desperate for any job, no matter how insecure or poorly paid."

So these latest reports merely provide statistical proof that we were right. They reflect the experience of our members over many years. The debate unleashed by the release of the UNDP report demands that we all accept that fundamentally the report seeks to address challenges well known to all of us. These issues were part of the recent election campaign. If solutions have to be found and alternatives considered, the first step ought to be acknowledging the extent of the crisis.

To quibble about the details of the UNDP report's statistics or to question its authors' ideological motives would be to miss the point. Those who have accused the report's authors and researchers of being ideologically driven are themselves not ideologically neutral. Being defensive or attempting to rubbish the report cannot solve the crisis of poverty and unemployment.

The government's Ten Year Review correctly asserts: "The advances made in the first decade by far supersede the weaknesses. Yet, if all indicators were to continue along the same trajectory, especially in respect of the dynamic of economic inclusion and exclusion, we could soon reach a point where the negatives start to overwhelm the positives". If the statistics provided by the UNDP report are anything to go by, we are fast reaching that point.

The two previous ANC-led governments have done much to improve the lives of the poor. Increased social grants and greater access to proper housing, running water, electricity, education and health care have given people a better life. But water, telecommunications and electricity are not enough if you have no job and no income, especially if your supply gets cut off because you cannot pay the bills. Service provision does not put money in people's pockets.

We need quality jobs and sustainable livelihoods, particularly in rural areas. We require a strongly interventionist government that shifts investment to labour-intensive areas of the economy and away from capital- intensive sectors that cannot provide enough jobs. The challenge is enormous but one that we cannot fail to meet. The consequences of another ten years of 40 percent unemployment and almost half the population living in poverty are unthinkable.

THE BROKEN RECORD WILL KEEP PLAYING

Lawrence Schlemmer, Director of the Helen Suzman Foundation,
THISDAY, 12 May 2004

In its latest Human Development Report for South Africa, the United Nations Development Programme (UNDP) has once again exhorted the government to review its economic policies to prioritise employment and avoid empowering elites in ways that deepen inequality.

This is a tough message, but infinitely justified by one of the highest rates of unemployment in any modern economy. However, to expect a rethink of current policies would be the height of naiveté. This latest warning, after all, is simply the most recent in a long series of exhortations by influential experts that sounds like a broken record, repeating itself year in and year out.

Other countries also have their "broken records". For example, the US has its massive chronic budget deficit and Germany has almost equally chronic over-regulation and labour market rigidities. Their political leaders are also not able to muster the courage and political will to act decisively. The political costs are simply too high and the longer-run political rewards uncertain.

The government is doing sensible things, but essentially at the margins of the problem. We have a new and bigger labour-intensive public works programme, but even with planned new expansions, it will generate less than a tenth of the required jobs. As Anna McCord, a public works specialist at the University of Cape Town has argued, its major effect will be to forestall discussion on alternative policies (Mail & Guardian, May 7).

We also have training programmes and modest subsidies to improve the employability of the unemployed, ongoing programmes of small business development and modest incentives for investment in priority regions. None of these initiatives is particularly successful and will never reverse mounting unemployment.

The only thing that could cut our unemployment levels dramatically would be a bold, comprehensive thrust to achieve a high growth, labour absorbing economy on the back of sharply improved rates of local and foreign fixed investment. The specifics of such a policy have been well set out by Alan Miller in THISDAY (April 28).

They make excellent technical sense but like many now disbanded IMF "structural adjustment" and other technical prescriptions, they clash massively with political realities. The government would have to ride roughshod over its alliance partner Cosatu, welfare lobbies, the transformation demands of new elites and over the sentiments of its own parliamentary caucus and membership.

As regards our international investment image, we are not a stable authoritarian regime like China, for example, that is able to reassure investors that it will never allow popular pressures to prejudice returns or the security of investments. At the same time we are also not like a liberal democracy in which checks and balances on power create utter confidence that property rights and freedom of enterprise will always be respected.

We tend to fall between these stools, and therefore the government would have to button its lips and scrupulously avoid doing or saying things that create uncertainty among investors. This is almost impossible when spokespeople like our minister of foreign affairs say that criticising Robert Mugabe would not be the “revolutionary” thing to do. Black empowerment charters and employment equity policy would also have to be replaced by voluntary measures or compensated by tangible incentives for business.

Post-liberation politics is the very antithesis of a high growth and investment strategy. But the main reason why government will not take the bitter medicine required is that it is not under serious and intense pressure to do something about unemployment. The recent elections have shown that mass voter satisfaction has risen while employment opportunity has declined. Voter sympathies can be bought fairly cheaply with targeted welfare grants and subsidised local services.

Besides which, Stats South Africa reports reflect falling numbers of unemployed people actually looking for work. This is only partly because they become discouraged. After years of unbroken unemployment, a life without work becomes a way of life. Above all, just as the US economy can rely on massive foreign investment flows to offset its huge deficit, the South African fiscal system has reliable middle class taxpayers and ratepayers to balance its books.

As long as the mass of voters can be manipulated and a new middle class can bask in transformation, there is no compelling reason for the government to take political risks. In other low growth countries in the developing world, rising unemployment, inequality and a self-satisfied elite and political class can co-exist for decades. The broken record, I fear, will just keep turning, turning, turning.

COSATU'S UN MANDATE

Nic Dawes, THISDAY, 12 May 2004

It is not often that I find myself in agreement with Essop Pahad, and I am not sure I like the feeling. The minister in the presidency is a little like the phantom of the cabinet, orchestrating the music of the night while his colleagues run around busily above ground.

Recently it has been the turn of the United Nations Development Programme (UNDP). The 2003 Human Development Report on South Africa, he wrote over the weekend, was an embarrassment to the UN, a work of advocacy by researchers with a predetermined agenda, rather than sober analysis.

The presidency had earlier responded to the report with rather insipid "background" on their policy goals and achievements, but Pahad was trying to give the argument some teeth, a job for which he has outstanding orthodontic qualifications. Unfortunately he elected not to name the researchers, or identify the embarrassing agenda in question.

Perhaps that is because it doesn't do for the minister to be openly hostile to the Congress of South African Trade Unions, an organisation that shows new advances in marketing nous on an almost daily basis. Having union officials boil over at the high price of lobster on the Cape Town Waterfront showed a canny sense of what passes for news value in our parliamentary capital, but it is a coup of another order to get the blue seal of the UN on your economic policy papers.

The imprimatur of the UNDP got the report a level of coverage that the union federation could barely have dreamed of achieving for its contributions to Nedlac.

Tired of measured praise for the government's solid approach to macroeconomic management, and measured criticism of its underwhelming record on growth and job creation, editors across the country seized on the authors' tough language about poverty and unemployment, and the report's call for an end to the twin policies of tight fiscal management and inflation targeting.

In all the excitement, the fact that the report's principal author was Asghar Adelzadeh, who helped Cosatu to draft its response to the government's growth, employment and redistribution strategy, has gone unremarked, apart from Pahad's unspecified accusations of advocacy. The record suggests that the minister's charge is not overstated.

Here is an extract from the minutes of a 2000 arbitration hearing following the breakdown of collective bargaining between public sector unions and the government:

“Economist Dr Asghar Adelzadeh testified on behalf of Cosatu that the state’s obsession with targeting inflation by cutting public spending was inappropriately deflationary and undermined the achievement of a key policy objective, namely growth in gross domestic product (GDP) and particularly in job creation. As the biggest player in the economy, government could and should spend more to grow the economy.”

In the report he says much the same thing, calling for budget deficits of 4 percent to 5 percent, massive infrastructure programmes and a monetary policy that targets GDP growth rather than inflation, implying that an inflation rate of up to 15 percent would be acceptable.

The macroeconomic policy sections of the report read like a more tightly argued version of the people’s budget, the yearly response of Cosatu, churches and nongovernmental organisations to the national budget.

The national treasury points out it has eased its fiscal stance, is committing billions to infrastructure investment, and can only afford vastly improved social grant spending because of its tough line on debt reduction.

Privately officials like to stress that it is the quality of spending, mostly at provincial level, that determines the performance of critical delivery strategies in housing, education, and health.

Even finance minister Trevor Manuel admits, however, that there are areas of value in the report. The concerns it expresses about the meagre level of investment in the economy relative to GDP chime particularly well with recent treasury policy statements.

The trouble is that the clear links between the authors and organised labour make it hard to take the report seriously as an independent assessment of the government’s economic policy direction.

That assessment cannot come from the International Monetary Fund, which is tainted by its long association with brutal and failed austerity programmes, but it is not only left-leaning academics and unionists who believe a serious rethink is in order.

Plenty of classically inclined economists feel that Tito Mboweni — for all his well-cut suits — is unduly straitjacketed by the requirement that he focus only on inflation data with no regard for economic growth. Alan Greenspan, they point out, is free to range over growth figures, durable goods orders, inventory levels, and non-farm payrolls to calibrate US interest rates.
So who can write an assessment that Pahad can’t get his chompers into? It is a challenge worthy of Peruvian economist Hernando de Soto, who will be here

in two weeks. I’m prepared to count on his independence, even if the treasury is sponsoring the conference.

THE MINISTER DOTH PROTEST

Sandile Dikeni, THISDAY, 13 May 2004

It will help to state from the outset that I am not a union member. Neither the South African Union of Journalists or the Congress of South African Trade Unions can count on me for payment of dues. It will also help to report that I do not have a degree in economics. Finally, I must confess that my numeracy skills are only as numerous as those of any other South African who has done SUB A at any Bantu education institution in the country.

But then one doesn't need any particular qualifications to form an objective appraisal of the United Nations Development Programme's (UNDP) Human Development Report released last week.

And armed with my arithmetic in Bantu education and writing in my second language, I cannot help but express my disappointment at Minister Essop Pahad's response to the UN report.

The responses of the minister and some other commentators suggest that the legitimacy of the UNDP's report is questionable because the authors of the report are suspected to come from the non governmental sector. If so, then so what?

We did not need a UNDP report to know that there is something amiss in our economy. It is general knowledge that 10 years ago, some economists were predicting economic growth of about six percent for South Africa. It is also general knowledge that we did not and have not achieved that growth rate. What we have achieved is, at last reading, an economic growth rate of about 1,9 percent.

Using my arithmetic from Victoria West Bantu Community School, I can tell that there is a whole 5 percent missing that needs to be accounted for.

Knowing this alone suggests that with all the great performances in the South African economy, there are still problems that we need to look at, and find ways and means to solve them.

Long before the UNDP released its report, people who are neither linked to Cosatu nor who can spell the name of the economist linked to the report battled to understand why our economy has failed to acquire the projected growth rate.

This is not an attack on government, dear minister; it is merely an attempt to elicit an explanation that will shed light on the matter. It might help us focus our attention as a nation on something that is quite important in the South African economy.

The Zion Christian Church and the AWB could have authored the report and I would still be unmoved by the minister's response on the matter.

What would move me, and, I am sure I speak for many South Africans, are clear and elaborate plans that retain the present positives in terms of fiscal discipline and inflation measures, but which still manage to help to boost growth sharply and create a lot of jobs.

Surely that is the spirit in which we should engage the UNDP report.

I have a general criticism about how government tends to respond on issues, especially those involving non-governmental organisations.

It is true that our NGO sector is not at its strongest at the moment. But that should not be an excuse for the dismissive attitude that the government demonstrates when it engages with this component of civil society.

Government officials might retort that they take NGOs seriously, but often when they make this claim they sound like PW Botha saying "some of my best friends are coloureds". It's just not credible.

What is credible are certain sections in *Towards a Ten Year Review* (which is as statistical as the UNDP report) where government admirably pulls a Cabral ("claim no easy victories"). In one section the report's compilers invite other sectors to conduct "their own assessments, which together with this review help to inform the nation's evaluation of itself in the First Decade of Freedom".

Government also comes out as credible when, in the review, it discusses the nature of the state and honestly enumerates its limitations.

But government officials sound wrong, bad and defensive when they respond in the way Minister Pahad did last Sunday. The government also sounds incredibly inflexible and rigid when it make exclamations like "we will not review policy".

I suggest some humility, even with 70 percent of the vote.

The Mozambican writer Jorge Rebelo once pleaded: "Let's forge simple words and let them fall like hot embers on the souls of a people."

I offer Minister Pahad free workshops on Saturdays on the wisdom of this line.

UNDP REPORT ON SA HAS TEMERITY TO QUERY 'IDEAS IN GOOD CURRENCY'

Xolela Mangcu, Business Day, 13 May 2004

I WAS at the launch of the United Nations Development Programme (UNDP) Human Development Report last week.

At the end of the presentation I asked myself a question which has since become an obsession: What does it actually take to get policymakers to shift their positions in the face of incontrovertible evidence their policies have failed to address the major challenges of the day?

Surely it cannot be for lack of evidence. After all, even the most ardent critics of the report start by conceding the empirical reality it presents. They argue the report states the obvious, leaving one wondering why they are not doing anything about the obvious.

The critics also say the report is boring reading, which leaves one wondering what animates policymakers. Is it a report on the richest South Africans of the decade or the World Cup bid?

Talking about the World Cup, do we really have to send Nelson Mandela to do this type of bidding? Not only do I think it's over- kill aimed to please a world audience, but I also find it a tad demeaning. If anything, it's for Fifa to come to Mandela, not vice versa.

But I digress. Coming back to the subject at hand, what then is the cause of government's dismissal of the UNDP report? As I pondered the question, I was reminded of a book by one of my former teachers at MIT, the late Donald Schon.

He shot to fame in 1970 by becoming the youngest man to deliver the prestigious BBC Reith Lectures. The lectures became the basis of his famous book, Beyond the Stable State. It is a book I recommend to all those entrusted with public policymaking. For the purpose of our discussion I would direct us to a chapter on "government as a learning system". Schon argues answers to our questions will not come from the rational model of public policy, for if that were the case the most sensible policies would long ago have been adopted.

Instead, the making of public policy is a social process sustained by what he calls "ideas in good currency".

The argument goes something like this: Social and economic systems are basically conservative in their structural, technological and conceptual dimensions. These systems are naturalised or reified to defend them from any external threat that could lead to a loss of "the stable state" they provide.

Those who design or support such systems design an ideological foundation and a linguistic system girded by metaphors of progress and science.

And so, for example, Standard Bank chief economist Iraj Abe dian criticises the report for being "ideological", as if government's Gear policies or the Washington Consensus on which they are based are not ideological. The word "globalisation" constitutes one of the central terms in this linguistic architecture.

In our case "globalisation" has become the "swart gevaar" equivalent of economic policy defensive tactics.

Status giving is also an important part of this defensive process. Awards, editorials and even friendships with powerful individuals and institutions sustain ideas in good currency. In a sense there is a socialisation process that takes place by sending policymakers to "credible" institutions for training or bringing in consultants from such institutions.

"Ideas in good currency" are thus contested within a world of institutional competition, or what Schon calls "a field of competing forces", in which bestowal of legitimacy is vital.

In my estimation, critics of the UNDP report are in a panic not because the issues are boring and obvious. After all, an idea does not invoke such strong reactions from senior ministers such as Essop Pahad simply because it states the obvious.

As Schon says: "Its power is manifest when it is not only broadly recognised and publicised but when it has become an issue for debate, when organisations begin to grow around it, and when it begins to be used to gain influence and money."

This explains why the responses are often framed as not befitting the UN. It's not so much the content of the idea as the UN backing that troubles the critics. They are in a panic because they are acutely aware of the influence of the United Nations in the global "field of competing forces".

The UN report simply shows there is nothing natural or preordained about the economic status quo. Gear is just another idea in good currency that will also come to pass, if a critical mass of influential institutions and intellectuals can at such times of crisis provide enough backing for an alternative set of "ideas in good currency". The UN has given us a good start.

ONCE IN POWER, YOU ARE DAMNED IF YOU DO, AND DAMNED IF YOU DON'T

Tim Cohen, Business Day, 14 May 2004

I often wonder why politicians do it. The job is so brutish. It is mostly short, and when not, absurdly long. It is generally not especially well paid, unless you can get away with slipping your hand in the till.

Intercourse with your opponents is publicly abrasive and even your relationship with colleagues is often tempered by the surreptitiousness of competition. Worse, you have to spend most of your life in the company of other politicians.

US president Richard Nixon once said, politics would be a great business were it not for the people.

But the absolute worst thing must be actually having to rule. All of a sudden, theoretical issues become practical. You are impelled to move, but yet your steps are seldom without some negative consequences for someone, somewhere.

Was it Henry Kissinger who said that most decisions in politics are 55/45 decisions?

And then the sheer volume of advice which you get as a politician is simply staggering.

Former British politician Alec Douglas-Hume's most well-known comment is: "There are two problems in my life. The political ones are insoluble and the economic ones are incomprehensible."

In SA, this oversupply of Monday morning quarterbacks is nowhere better illustrated than the huge United Nations Development Programme (UNDP) report that thudded into the public domain this week. It is just under 300 pages long. I don't claim to have read it all, and I seriously doubt it is humanly possible to do so.

Even a brief glance shows a huge collection of wonderful examples of an extraordinary new language UN reportese. This, for example: "Reducing poverty, improving income distribution and reducing unemployment in South Africa will strengthen the foundation for the enhanced rate and sustainability of economic growth."

This blindingly obvious statement is clearly important because it is colourfully highlighted, enlarged and placed prominently in the margin.

Statements like this lie wonderfully between the incontrovertibly true and the pseudo-academic. They create an aura of wisdom and common sense.

But the problem is they don't actually say anything. Knowing that if people were richer, their lives would be better does not really help you know what to actually do, right here, right now.

If you glance through the report carefully enough, it is possible to discern the ugly whiff of politics that underlies its policy prescriptions. Take this statement for example: "It is important to avoid policy-making through the budget." Wow. You might have thought that the budget is the most eloquent statement of government policy, but clearly not.

The next sentence illustrates the criticism: "Expenditure control considerations that rely too heavily on budget-making carry the serious risk of allowing the budgetary framework to dominate other policy frameworks." Is the UN seriously advocating that SA should ignore the fiscal deficit? And if it is, how can we possibly take it seriously?

In truth, the report does have some practical ideas, but its basic proposition seems to be that government should spend more money. This is presumably why trade unions were guests of honour at its launch and endorsed it so enthusiastically, but not business or government.

The report does contain a huge amount of useful statistical information. Unfortunately, much of this statistical data is a double-edged sword. To support its conclusion that government should spend the country into perdition, government must be shown to have been inadequate so far. This the statistics duly demonstrate.

People are, on average, actually poorer in real terms than in 1994.

However, this is not a view to which our existing political class will take too kindly, hence the quick rebuttal from Minister in the Presidency Essop Pahad. But, in one sense, you have to have every sympathy for not just our government, but for all governments. Expectations of what they can do are huge, particularly in SA.

Yet the tools available to them are not only inadequate but shrinking.

At the turn of the last century, the largest institution in European societies was government, by a long margin. This must have been in a way what prompted economist John Maynard Keynes to encourage the use of public works to reduce unemployment and his condemnation of the government's "fear of budget deficits" after the depression. And if there is an economic theory that lies behind the UNDP report, it is just these Keynesian prescriptions.

The problem is that times have changed. Business slyly criticised in the report for doing awful things like advocating economic freedom now constitutes a far larger part of the general wealth. Government makes up only between 15%-20% of the economy, depending on your measure. We live in a world in which the General Electric corporation outspends all but the largest dozen or so countries.

With the best will in the world, I just don't think government can spend its way out of trouble. The effect of trying to do so would be marginal at best, and could be catastrophic at worst.

So government does what it can, trying to pick its way gently along this tightrope. It is easy to castigate its policies and call for it to move left, or move right, or just move faster. But ask yourself, would you really relish taking on such a job?

INFLATION NUTTERS' VIEW OF THE WORLD

Duma Gqubule, Mail and Guardian, 21 May 2004

The government's paranoid, hysterical and nit-picking response to the recent United Nationals Development Programme *South Africa Human Development Report 2003* has shown that it does not have a single coherent proposal on what should be done to significantly increase the country's miserable rate of economic growth.

There is nothing in the government's current policies that explains how the country will ever reach the elusive 6% rate of economic growth.

Hardly three weeks after the inauguration of President Thabo Mbeki, the government has reneged on a critical pillar of its proposed contract with the people, an election promise to spend R100-billion to upgrade transport infrastructure. The government has slashed half of the programme – a plan to upgrade rail infrastructure and rolling stock by two-thirds, from R45-billion to R14-billion, because the Treasury refused to provide the guarantees for Transnet.

The government's response is puzzling because there is nothing new in the report. The United Nations Development Programme (UNDP) report in 2000 had reached similar conclusions.

My favourite quote from the 2000 report was from James K Galbraith, who said: "Where are the continuing success stories of liberalization, privatization, deregulation, sound money and balanced budgets: Where are the emerging markets that have emerged, the developing countries that have developed, the transition economies that have truly completed a successful and happy transition? Look closely. Look hard. They do not exist."

The road to perdition is for the country to continue on its current economic growth path. Gross domestic product (GDP) per capita increased by 0,67% a year between 1995 and 2001, according to the UNDP. At this rate it will take more than 100 years to double per capita GDP. Other countries do it in 10 years and less. The UNDP makes a number of recommendations on how to get the country out of virtual stagnation, which should be taken seriously.

Firstly, is says that the government must borrow more money and increase the deficit to GDP ratio to 5%. I would add that there is no reason why the ratio cannot be increased to 10% for a while, if this is done within the context of a coherent growth strategy that ring-fences the money in a separate capital budget for infrastructure and taps into the resources of the financial sector and parastatals.

In the same way that the right wing can argue, quite convincingly, that tax cuts financed by debt eventually pay for themselves by boosting growth and, therefore, tax revenues, the same line of reasoning could be used to argue that targeted investments by the public sector would have a bigger impact. The multiplier effect of the government spending on infrastructure is two and a half times that of income tax cuts, according to the Treasury.

But the UNDP is wrong when it calls for tax breaks, along the lines of the Brenthurst Initiative, for companies that make a contribution to development. The government must prevent open-ended leakages from the fiscus and retain the option to increase taxes. If sequenced correctly, modest tax increases can redistribute incomes and opportunities, claw back revenue for further targeted investments, reinforce the drive for economic growth and crowd-in private sector investment.

The UNDP is right when it calls for the government to dump the inflation-targeting framework and introduce economic growth targets. The Reserve Bank's punitive, usurous interest rates – there was an average real lending rate of nearly 11% and a real economic growth rate of under 3%, very few projects are viable. No wonder corporate black economic empowerment deal-making has not succeeded in non-traded sectors.

The sky-high interest rates, which are wrongly increased each time there is an exogenous shock, contribute towards the volatility of the exchange rate, and therefore output, by attracting speculative flows of hot money from abroad. With exports now a larger proportion of GDP because of the country's industrial policies that prioritized capital-intensive exports over expansion of the domestic economy, the volatile swings in the exchange rate have a greater impact on output.

High interest rates also increase the level of government debt. A significant drop in interest rates to a level that is marginally higher than the inflation rate, as is the case in most countries, would reduce interest on government debt. It will make investment projects more viable, kick-start a boom in low-cost housing, and take the speculative froth out of the currency market. The best way to reduce government debt as a proportion of GDP is to grow the denominator, the bottom part of the equation. With higher levels of economic growth the debt problem would vanish into thin air.

The government should review its strategy of outsourcing monetary policy to un-elected bureaucrats and change the mandate of the Reserve Bank to include maximising economic growth and job creation. After all, as Mervyn King, governor of the Bank of England, once said, people who believe that the only role of a central bank is to reduce prices are inflation nutters. There are no central bankers in the world who are inflation nutters, he said in 1997.

The government should respond to the UNDP's recommendations by telling the country what alternative policies it has that can increase the rate of economic growth to above 6%. It should explain how it will raise more funds for development and grow the economy when it has constrained itself – without anyone putting a gun to its head – with a 3% budget deficit ceiling, a 25% tax to GDP ratio and the only central bank on the planet that subscribes to the inflation nutters' view of the world.

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LET'S DEBATE THE UNDP REPORT

Stef Coetzee, THISDAY, 27 May 2004

South Africa's transition to political democracy raised the hopes of millions of people for an improvement in their quality of life, job opportunities and income to afford at least the basic necessities of life (the hoped-for "second liberation").

Human development was seriously retarded under the previous dispensation and economic growth showed a long-term decline, diminishing the availability of resources to finance human development. From the outset it was clear that the new government had an immensely difficult task to achieve both macroeconomic stability and to improve the living conditions of the poor. The "burden of democracy" is that it does not necessarily improve everything simultaneously and immediately, as some people might have expected it to do.

To the realistic observer it was clear that only in the long run would the country be able to make a fundamental social and economic transition. We would also face stiff competition in a rapidly globalising world, especially from those developing regions and countries that have been well integrated in the information and knowledge economy, and those with a comparative advantage in labour-intensive production processes.

In addition, the experience of developing countries, particularly in Africa, has shown that macroeconomic instability can put you on a slippery slope towards structural adjustment-type programmes, with devastating effects on social development.

The two policy trade-offs—namely, between promoting economic growth and human development on the one hand, and between human development and maintaining macroeconomic stability on the other—are very complicated and call for level-headed policy choices. However, it is possible to construct a development path that can promote "macroeconomic stability with a human face" — that is, maintaining macro stability while promoting sustainable human development.

It is not an either/or situation. We simply must do both well. The above policy choices and trade-offs are at the heart of the recent controversy over the United Nations Development Programme's (UNDP) 2003 Human Development Report.

The report has been criticised for perceived "shortcomings" such as an omission of, or insufficient emphasis on, the effects of globalisation, macroeconomic stabilisation and budgetary constraints on development; "contradictory policy recommendations"; "ideological biases"; and for not recognising that current government policies promote exactly the kind of recommendations made by the report. There is also the danger, one might add, of applying international recipes in reports like these in a "one size fits all" manner.

The question could be posed: How well has South Africa really done since the political transition, taking into account both good macroeconomic stability and human development?

Broadly speaking South Africa has done well in improving the fiscal shortages, especially in view of the fiscal crises inherited from the former apartheid and homeland governments; lowering the inflation rate; managing the national debt; and a stable monetary policy. In a similar vein, meaningful progress has been made in satisfying basic needs, such as housing, water provision in rural areas, provision of primary education and electricity — certain prevailing shortages notwithstanding.

However, well-informed observers would agree that there is a long way to go to promote sustainable human development, especially at the local level, and to create the conditions for higher levels of sustained economic growth. Despite sustained efforts in the past 10 years the development challenges ahead of us are daunting.

Here one only has to think of the unemployment rate, prevailing income inequalities, the decline in South Africa's human development index, the crisis in education, the HIV-Aids pandemic and the slow progress of land reform.

Although we have started to do many of the "right things" and to do them well, there is a need to improve effectiveness and efficiency in delivery—once again with particular focus on the provincial and local levels.

Despite the somewhat controversial relationship between economic growth and development, there can be no gainsaying the importance of a rise in real per capita income and pro-poor growth strategies to spread wide the fruits of development.

The challenges include acceleration of privatisation and using the proceeds for the improvement of human and physical capital; improving the savings and investment ratios; improving the conditions for long-term foreign investment; harnessing new and appropriate technologies to create new competitive advantages; more aggressive promotion of small and micro businesses; and improving land reform and rural agricultural production, to mention but a few.

Even if the UNDP report has not acknowledged all the achievements of the past ten years—and one can certainly debate the policy options of the report—it does raise fundamental questions with regard to the current state of development progress and policy responses to the development challenges that we cannot ignore.

What we should avoid is to let this debate once more slip into slinging ideological slogans at each other instead of engaging in constructive debate. A far more nuanced approach is required.

Development policy options promoting partnerships between government and civil society; public-private partnerships; and public works programmes that promote skills development and subcontracting to small contractors should be fostered if we are to make progress.

Moreover, the new South Africa has also raised the hopes of an open and robust debate acknowledging both our successes and failures in exactly the type of areas highlighted by the UNDP report. We should therefore be

vigorously debating the report, the responses to it, as well as our development record of the past 10 years.

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