

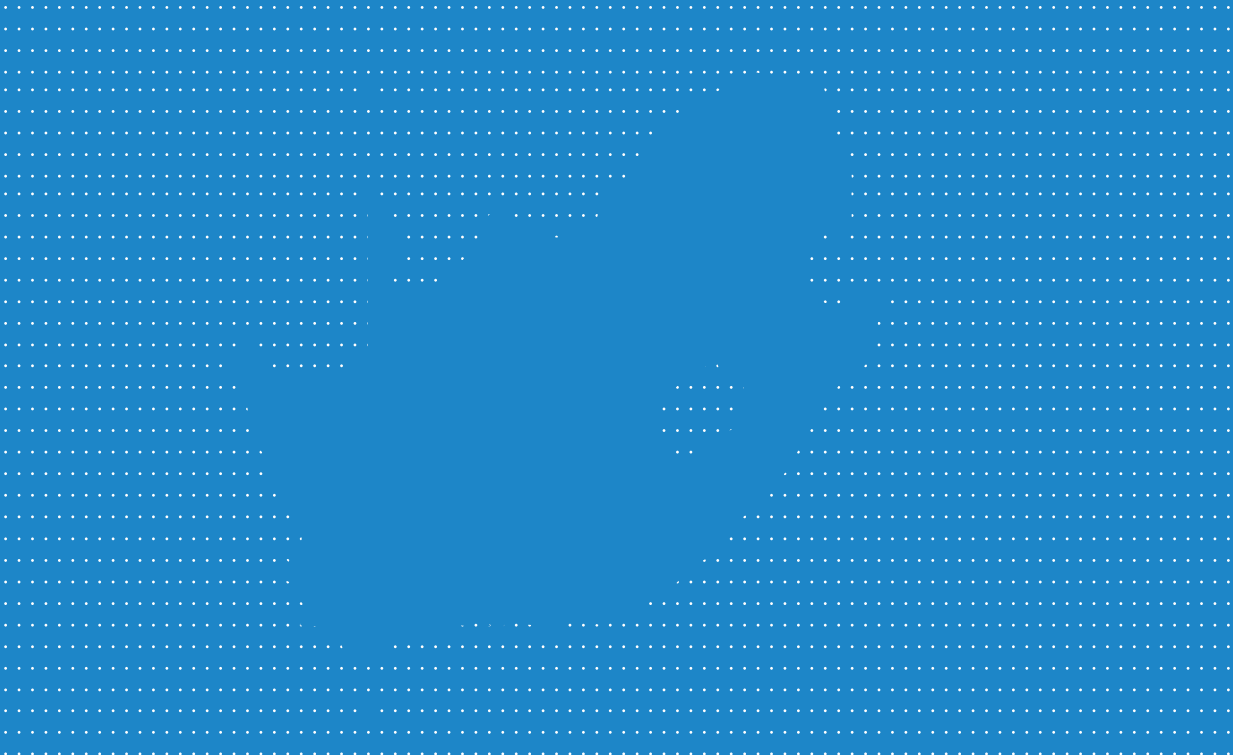


GROWTH AGENDA

Priorities for mass employment and inclusion

INSIGHTS AND KEY RECOMMENDATIONS

JOB • INCLUSIVE GROWTH • CITIES • SKILLS • BUSINESS & GOVERNMENT



GROWTH SERIES
Report 1



CENTRE FOR
DEVELOPMENT
AND ENTERPRISE



About CDE

The Centre for Development and Enterprise (CDE), an independent policy research and advocacy organisation, is South Africa's leading development think tank. Since its establishment in 1995, CDE has been consulting widely, gathering evidence and generating innovative policy recommendations on issues critical to economic growth and democratic consolidation. By examining South African and international experience, CDE formulates practical policy proposals outlining ways in which South Africa can tackle major social and economic challenges. CDE has a special focus on the role of business and markets in development.

CDE disseminates its research and proposals to a national audience of policy-makers, opinion formers and the wider public through printed and digital publications, which receive wide media coverage. Our track record of successful engagement enables CDE to bring together experts and stakeholders to debate the policy implications of research findings.

The CDE Growth Agenda Series

Series editor: Ann Bernstein

Reports in the Growth Agenda series are based on CDE's many policy initiatives, commissioned research and think pieces, as well as consultations and workshops with experts and stakeholders. They were written and edited by Ann Bernstein, Antony Albeker and Professor Alexander Johnston. The entire project has been guided by a reference group of CDE Board members, supplemented by other senior advisers. We are grateful for the advice and assistance of many other people in helping CDE to produce this series of reports.

This document and the six other reports in the Growth Agenda series are available from CDE; they can be downloaded from www.cde.org.za.

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The Growth Agenda

Priorities for mass employment and inclusion

For the past two years the Centre for Development and Enterprise (CDE) has been working on a major project to identify national priorities for faster economic and employment growth.

More than 20 years after apartheid far too many South Africans live in poverty, largely because far too few have jobs. This has serious implications for our society; South Africa's considerable democratic achievements are being put at risk by the political, social and economic consequences of low growth, unemployment, poverty and inequality.

As we have worked on the project – commissioning research, taking soundings and consultations, testing ideas with stakeholders – concerns about the country's trajectory have deepened and been more widely expressed by people from all walks of life. There is a broadening consensus that we are in deep trouble; this is an opportunity to focus on priorities for action.

This report is one of the CDE Growth Agenda series of publications. We have identified the catalytic priorities which form the essential building blocks for a fundamentally new approach to accelerating growth and employment in South Africa. These priorities comprise a basis for encouraging a wide conversation across South Africa, by offering a diagnosis of what is going wrong and focused recommendations for getting the country back on track.

The CDE Growth Agenda series consists of seven reports:

- Summary overview: Insights and key recommendations
- Jobs
- Accelerating inclusive growth
- Cities
- Skills
- Business and government
- An export processing zone for the Nelson Mandela Bay Metro

“The bottom line is this: South Africa needs accelerated growth that is urban-led, private sector-driven, enabled by a smart state, and targeted at mass employment.”

THE GROWTH AGENDA

INSIGHTS AND KEY RECOMMENDATIONS

South Africa is on a low road of stagnating growth, policy confusion and gridlock, rising social tension and uncertainty about the future. Our 'good story' of democratisation and greater inclusion sounds more and more hollow to the unemployed and poor who remain excluded from what, in truth, has always been an insider story. Even those, black and white, who have done well out of South Africa's transformation from racial tyranny, have reason to be concerned about the future as we get poorer and slide into a zero-sum contest for the fruits of a stagnating economy. A new democracy with serious challenges of unemployment and poverty cannot afford to stand still. Some of our situation can be explained by unfavourable global economic conditions and the legacy of apartheid, but too much is the result of poor policy choices and misguided thinking about what drives growth and employment. This document and its six companion reports identify the catalytic priorities on which the country must focus in order to grow faster and create more jobs. To stick to this focus may involve tough choices, but they are not as tough as the choices we will meet if we continue down the low road.

INTRODUCTION

More than 20 years after apartheid, far too many South Africans live in poverty. The reason for this, and for our enormous inequalities, is that far too few South Africans are employed. This has serious implications for our politics and stability, ultimately putting at risk the political, social and economic achievements of our democracy.

Without faster, more labour-intensive growth, we will fail to employ the millions of people who need work, condemning them – and their children – to lives of grinding poverty. Slow growth will also mean that state revenue will not keep pace with legitimate demands for access to all levels of education and training, essential infrastructure and improved social welfare. South Africa's poor will be left behind, society will stagnate, race relations will worsen and instability will increase.

South Africa's prospects of avoiding this future depend on whether the private sector can expand, become more dynamic and employ many more people; the state can become much more efficient while maximising the potential of markets; and our largest cities can accommodate more people and simultaneously drive faster innovation, as well as economic and employment growth. Success in all these areas requires that we:

- Rebalance the approach to transformation away from elite enrichment to growth-driven inclusion;

“Slow growth will mean that state revenue will not keep pace with legitimate demands for access to education and training, essential infrastructure and improved social welfare.”

- Create an attractive and competitive environment in which to do business for all firms, large and small;
- Encourage the emergence of labour-intensive industries that use lots of unskilled workers;
- Expand dramatically the country’s skills pool;
- Put cities at the heart of our national growth strategy; and
- Put state-business relations on a new and more constructive footing.

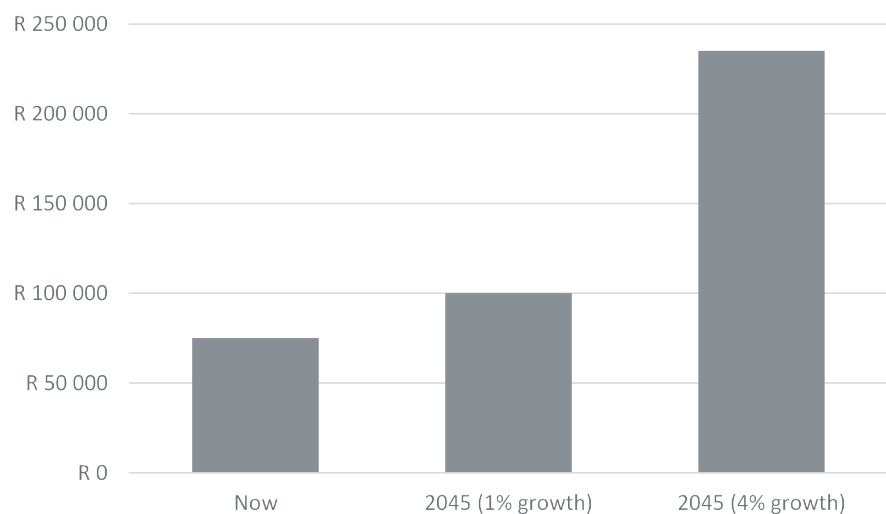
These priorities comprise a basis for encouraging a nationwide conversation. They offer a clear diagnosis of what is going wrong and a focused set of catalytic recommendations for getting the country back on track.

Inclusive growth or stagnation?

Sustained, rapid and inclusive economic growth is the sole basis on which the quality of life of millions of people can be permanently raised: it is economic growth that raises wages and income; that makes it possible for farm workers to risk leaving poorly-paid, back-breaking toil in the countryside for a higher-paying job with better prospects in the city; and that makes possible a rise out of poverty and the attainment of a greater measure of dignity and empowerment.

“Sustained, rapid and inclusive economic growth is the sole basis on which the quality of life of millions of people can be permanently raised.”

Figure 1: Per Capita Income - Now vs 2045



CDE 2016

We can consider the difference over 30 years between two different growth paths, one in which per capita income rises by 1 per cent a year and another in which it rises by 4 per cent. In the first, average income in South Africa in 2045 will be about R100 000 a year – about R25 000 more than the current level of around R75 000. In the second scenario, however, the increase in per capita income would be nearly R160 000 – an additional R135 000 more than the R25 000 increase from 1 per cent growth – and would raise per capita income close to R235 000. An additional 3 percentage points in per capita income for

30 years, in other words, would triple our current income. There is simply no question that the availability of those additional resources would make the lives of our children and grandchildren much better than they would otherwise have been.

Faster growth not only brings increased income, but more tax revenue to fund improved public services. Because more people would be in employment, less of those taxes would have to be devoted to poverty alleviation and more could be used to secure further growth by investing in human capital, infrastructure, institutional development, and fostering innovation.

Rapid growth also brings social mobility, much greater individual opportunity, and wider options for enterprise, careers and lifestyles. In a high-growth economy, a woman can move from rural poverty to a factory job to becoming a small entrepreneur in less than a generation, and can realistically hope for even more for her children. Growth has other beneficial effects such as increasing the likelihood of social stability and helping to consolidate democracy. As the examples of India, Vietnam, Indonesia and China demonstrate, the dividends in national pride and the sense of expanding possibilities create a self-renewing momentum for further growth.

In the absence of growth, South Africa's social contract, its constitution and even its democratic order might unravel. (See box on page 4.) Initially, this would be a result of deteriorating economic conditions; as the country becomes poorer, policy-makers would come to believe that their options had narrowed and would likely succumb to the temptation to impose ever more extreme populist policies. It is possible to imagine extortionate taxes, widespread expropriation, defaults on debts held domestically and internationally, and the Reserve Bank's resorting to printing money to cover the budget deficit. The list of policy mistakes that might be made as pressures mount is a long one. The consequences of the failure of these policies would be considerably more disruptive and costly political contestation, growing mistrust, and widespread protest and conflict. Down this road lies the unnerving example of Argentina's lurching through much of the 20th century from populism to authoritarianism and back.

Economic growth, then, is essential because of all the benefits it brings South Africans and because without it, the country will quite quickly slide into deeper trouble.

Growth must be inclusive

If growth is to reduce the exceptionally high levels of poverty and inequality that shape our politics, it must be inclusive. Given our very high levels of unemployment, this means that future growth must be much more labour-intensive than the high-skill and capital-intensive profile of most of our existing economic activity. To be inclusive South Africa's quest for faster economic growth must place faster employment growth at its centre. How we might

“To be inclusive SA's quest for faster economic growth must place faster employment growth at its centre.”

achieve both these objectives is the subject of what follows in this overview of the CDE Growth Agenda, as well as the six companion reports that take up these issues in more detail. (See the CDE Growth Agenda series of reports available at www.cde.org.za)

“Economic growth is essential because of all the benefits it brings South Africans and because without it, the country will quite quickly slide into deeper trouble.”

IMPLICATIONS OF SUSTAINED 1 PER CENT GROWTH

South Africa would at best have a stagnant GDP per capita in real terms and it would probably decline slowly, leading to:

- A fall in formal sector employment, making it even more difficult for young people to find work, widening the gap between insiders and outsiders and creating more poverty.
- Downward pressure on company profitability, increasing the risk of mass lay-offs, and making wage demands harder to accommodate. Industrial conflict would rise and private-sector investment would fall. Firms would seek higher returns abroad, with the state probably responding with capital controls. This would further lower foreign investment. Ratings downgrades would be inevitable, triggering unmeetable calls on public-sector debt and weakening a key bulwark against macroeconomic populism.
- A squeeze on state spending and a rise in the share devoted to salaries, leading to reduced spending in other areas. Reduced public investment would see infrastructure deteriorate and would rule out recapitalising failing SOEs.
- Political difficulties for government would rise as it tries to reconcile austerity with delivery and electoral pressures. Corruption would increase because the declining quality of public administration would offer more opportunities for plunder, and because contractors to the state will want to see to it that austerity for the country does not lead to austerity for them. Taxation would rise, as would inflation and (if the Reserve Bank remained independent) interest rates. Household income and consumption would deteriorate faster than GDP per capita. The burden of household debt will rise.
- Access to further and higher education would become a major source of conflict as intensified demand from young people seeking to escape a future of poverty makes itself felt on already-stretched universities and other tertiary institutions. Stagnation in enrolments and employment growth would cause irreversible damage to human capital formation among the young, even when growth resumes.
- Slow growth would worsen poverty generally and lead to an increase in the demand for social grants (and at higher levels) at a time when it is becoming more difficult to supply them. Crime would rise, and delivery service conflicts would become more acute. As social conflict rose, so would the possibility of communal violence.

CDE 2016

PART ONE: SOUTH AFRICA'S CHALLENGES

A crisis of our own making

The hand dealt to post-apartheid South Africa was not an easy one. The legacy of apartheid exclusion could be seen in inequalities across the full spectrum of social and economic indicators – in employment, income, education, asset ownership, skills-acquisition and economic opportunities, to name only the most obvious. The global economy was also changing rapidly as technological change and globalisation made possible a huge shift in comparative advantage in manufacturing to the emerging economic giants of East Asia and their low-wage workforces.

Despite the difficulties of a large, complex society marked by profound social and economic inequalities, and navigating the changing global economy, South Africa in 2016 is markedly better than it was in 1994. The achievements of democratic South Africa are a source of pride to all who contributed to them. Politically, we have become a stable, albeit fractious, democracy where regular, legitimate elections produce popularly-elected governments. Increasingly vigorous opposition parties hold them to account, supported by independent courts, a free press and a civil society made up of a large number and variety of organisations. In society, real progress has been made in race relations, gender discrimination, residential and school integration, and constitutionally-backed tolerance for diversity of all kinds.

In the economy, growth has been more rapid since the late 1990s than in the two decades of actual and near recession that started in the late 1970s. By the end of 2014, the economy, measured in inflation-adjusted US dollars, was nearly 90 per cent larger than it was in the early '70s. The share of the workforce that has higher education has risen significantly; the number of people with university degrees more than doubled between 1995 and 2011 and almost all of them have found employment. The number of black people earning university degrees every year now exceeds that of white graduates. Black people's shares of wealth, income, consumption and employment at all levels, though by no means equal to whites in per capita terms, have risen, reflecting some progress in transforming the economy.

On closer examination, however, this 'good story' of democratisation is largely one of 'economic insiders' doing well by virtue of their skills and social capital, and leaving behind millions of outsiders, most notably the unemployed, the large majority of whom have received very poor education. Growth has been slower than many of our peer group countries and slower than it might have been.

As a result, for all the undoubted achievements, South Africa is on the low road. Evidence of this abounds: mass unemployment continues to grow, poverty rates, while lower than they may once have been, are no longer falling and remain very high by the standards of upper middle income countries. Not surprisingly in the light of these grim metrics, violent and destructive protests have become an ingrained feature of the political landscape. Against this backdrop, the near-miraculous political settlement is starting to fray and the sense of national unity and purpose that followed seems increasingly brittle. The ruling party's sense of mission and unifying vision have been eroded. As

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its own senior office bearers have been saying in reports to conferences since at least 2010, the ANC is mired in factionalism, patronage and corruption. Both party and state have become prey for vested interests, and the separation between the two institutions, never clear, is being further eroded. All of this is to say nothing about the appalling weakness of the education system, nor the deep crises besetting key public institutions such as the National Prosecuting Authority and SARS, and state-owned enterprises (SOEs) like Eskom, SAA, the South African Post Office and the SABC.

Perhaps most corrosive of all our recent trends is the sense that governance is in decay. Parliament is degenerating into street theatre: institutions designed by the Constitution to check the executive such as the Public Protector have been attacked and undermined; inexplicable senior appointments are made in government and parastatals; the judiciary has to fight for its independence, and state legal bodies are being subverted for partisan purposes.

Even allowing for the malign legacies of apartheid and rapid global change, much of the responsibility for our current malaise lies with our policy-makers. Poor policy choices have been made in a number of critical areas, including labour-market regulation, fiscal policy, energy, education, housing and healthcare. A hopelessly inappropriate approach to governing and managing SOEs, cadre deployment in the civil service, and the over-regulation of firms and their business dealings, have all contributed to South Africa's economic woes. And current trajectories in all these areas are increasingly in the wrong direction.

“Perhaps most corrosive of all our recent trends is the sense that governance is in decay.”

Deep structural challenges in South Africa were masked for a time by the commodities boom, which provided growth and permitted a large measure of business-as-usual policy-making and leadership. However, although we seemed initially to weather the global economic crisis starting in 2007, growth has been in steady decline for the past seven years.

The National Development Plan (NDP) identified the need for average annual growth of over 5 per cent a year between 2012 and 2030 in order to meet its targets of eliminating poverty and reducing inequality, primarily by creating 11 million new jobs. However, annual growth since has barely ever touched 3 per cent, and has been slowing over the past few years to around 1 per cent. The result is that our economy is considerably smaller now than the NDP would have hoped, and the average growth rate needed to achieve the NDP's target for the size of the economy by 2030 is now over 6 per cent a year. More importantly, the failure of the economy to grow means that many of the social policies championed in the NDP and by government appear increasingly unaffordable.

The positive implication of acknowledging our own responsibility for poor choices is that different policy choices made in South Africa could drive substantially better outcomes for all.

Why is there still so much poverty and inequality?

Depending on how one calculates poverty rates, between 35 and 55 per cent of South Africans are poor – that is, between 18 and 27 million people. Even at the lower level, there is considerably more poverty in South Africa than the norm for developing countries that, like ourselves, are categorised by the World Bank

as 'upper middle income'. Using its preferred methodology, the World Bank estimates that 34 per cent of South Africans are poor. This compares with about 17 per cent of people in other countries at a similar level of development, some of which – like Turkey – have poverty rates of only 3 or 4 per cent.

South Africa's uncommonly high level of poverty is a key driver of our exceptionally high level of inequality. The Gini coefficient is one measure of this. A more intuitive way of thinking about inequality in South Africa is that, while the average income of people in the richest 10 per cent of the population in countries like Turkey and Argentina is between 15 and 20 times greater than the average income of people in the poorest 10 per cent, in South Africa, the ratio is 55:1, that is, the richest 10 per cent are 55 times more prosperous than the poorest 10 per cent. Even in notoriously unequal Brazil, the richest 10 per cent earn 'only' 43 times what the poorest do.

The key factor that links poverty and inequality is unemployment, which affects not only the unemployed (nearly 8 million people) but a much wider swathe of society. This is because, in the absence of social security for the long-term unemployed and for those who have never worked, an enormous burden is put on the wages and grants of those on whom the unemployed depend. In substantial measure, therefore, the problem of the 'working poor' is a by-product of unemployment, which is itself a by-product of poor policy choices made in education, skills-formation, the management of the economy and, especially, the labour market.

The connection between slow growth, poor education and limited employment opportunities for low-skilled workers is the key to understanding South Africa's triple challenge of poverty, unemployment and inequality.

Unemployment and the decent work dilemma

The single most important reason why South Africa has so much more poverty than any other upper middle income country and why it has such high levels of inequality is that so many people have no work. South Africa has the world's largest and most persistent rate of unemployment: if 'discouraged workers' are included, some 7.6 million people (35 per cent of the workforce) are unemployed.

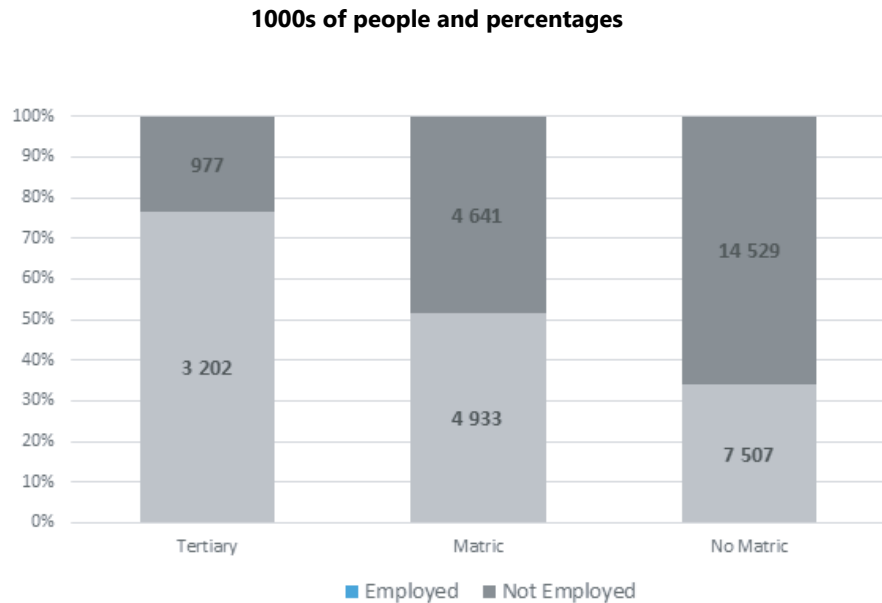
Unemployment is a much greater problem for the unskilled than it is for the skilled:

- 77 per cent of the 4.2 million adults who have tertiary qualifications are employed.
- 52 per cent of the 9.6 million adults whose highest qualification is a matric are employed.
- 34 per cent of the 22 million adults who have not completed high school have jobs.

The result is that, while only 11 per cent of adults have a tertiary education, they account for almost 21 per cent of all those in employment.

“The problem of the ‘working poor’ is a by-product of unemployment, which is itself a by-product of poor policy choices made in education, skills-formation, the management of the economy and, especially, the labour market.”

Figure 2: Employment levels by level of education



Source: Stats SA - Quarterly Labour Force Survey (September 2015)

“That employment is so heavily dominated by those with formal educational qualifications is a reflection not just on the education system, but of the fact that economic activity is too skill- and capital-intensive for a country with so many people who have not completed high school.”

That so many South Africans have received such limited education – 22.4 million adults lack a matric – is a result of a long history of apartheid education and the present weaknesses of the education system. That employment is so heavily dominated by those with formal educational qualifications is, however, a reflection not just on the education system, but also of the fact that economic activity is too skill- and capital-intensive for a country with so many people who have not completed high school. One key reason for this is that our policy-makers have chosen a development strategy premised on high-productivity, high-wage employment, one, in other words, that permits the creation of ‘decent work’ only.

‘Decent work’ is defined by the International Labour Organisation (ILO) as work that is productive, delivers a fair income, provides security in the workplace and social protection for workers and their families, and gives workers the freedom to organise and to participate in decisions that affect their lives. Framed in the abstract, this is an agenda with which no reasonable person could quarrel. But the definition of decent is deliberately imprecise to permit countries at different stages of development to set standards at different levels.

In the context of one of the world’s highest unemployment rates, South Africa’s labour market regime has tended to set high standards, particularly for wages, wage-setting processes, employment protection, and union rights. Certainly, they are higher than in many comparable developing countries. This has helped ensure that sectors such as mining and agriculture, which used to employ large numbers of unskilled workers, now use much fewer. It has also ensured that other labour-intensive sectors and sub-sectors – such as the textile and clothing industry – have shrunk.

The essential point is that a decent jobs agenda has very different meanings and effects in an economy where nearly four in ten adults are unemployed, compared to a country in which the unemployment rate is in single figures.

The result is that employment in many different kinds of productive economic activity simply cannot be created competitively in South Africa. The collateral damage is devastating.

This fact has been explicitly acknowledged by both the minister of labour and by ANC secretary-general Gwede Mantashe, who has said that demanding that all new jobs should be 'decent' was 'putting the cart before the horse'. The point was put another way by Trevor Manuel when, as minister of finance, he argued that the more adjectives we put in front of jobs, the fewer jobs there will be.

At the same time, vast numbers of unemployed South Africans are desperate for work. This has been proved by the experience of the expanded public works programme (EPWP), about which there is much self-congratulation in government. The EPWP is intended as the vehicle to create 6 million 'employment opportunities': it pays wages well below the minimum permitted in most industries, around R80 per day, and is, therefore, one of the few sources of low-wage employment for the unskilled. But it is only the public sector which is allowed to create these jobs, even though they violate all government's requirements of 'decency'; they are temporary, part-time, provide little if any training and offer no prospect of promotion. At the same time, government policy prohibits private firms from creating jobs at similar wage levels even though these are much more likely to involve some training, a chance of promotion, some piece work and overtime to supplement basic pay, as well as the prospect of full-time, permanent employment.

South Africa has to create work for the labour force we actually have, not the abundance of skilled workers we would like to have. We need a growth and employment strategy that is realistic about the country's education and training shortcomings and the reality that large numbers of adults have not had the opportunity to finish secondary school. The South African economy must fire on all cylinders; this must include creating more space for labour-intensive industries that use lots of unskilled workers to grow.

By driving up the costs and regulatory risks associated with employing people, the implementation of the decent work agenda has priced unskilled workers out of the labour market. In the eyes of our policy-makers, work that is not 'decent' is worse than no work. The implication is that no wage is better than a low wage.

“South Africa has to create work for the labour force we actually have, not the abundance of skilled workers we would like to have.”

Administering poverty, not steadily ending it

The consequence of the mismatch between policy-makers' vision of a high-skill, high-wage growth path and the reality of an under-educated workforce is unemployment on an epic scale. The result, of course, is high levels of poverty – not just of those who have no jobs, but also of the many low-income wage earners who must support unemployed members of their families.

Confronted with the contradiction between their plans for growth and the realities with which they must deal, policy-makers have settled for responses that administer poverty rather than those that might steadily end it. These are the erection of a social security system and the state as employer-of-last-resort, through the expansion of public sector employment and of temporary 'employment opportunities' through the EPWP.

This has led to the establishment of what is by some measures the most redistributive state in the developing world. Nearly 17 million South Africans receive a cash grant of some kind every month; between 2 and 3 million families have been beneficiaries of the RDP's housing programme, and per capita public spending on free and near-free education and healthcare for the poor is high by the standards of the developing world. In addition, the EPWP and the Community Work programme provide short-term and/or part-time low-wage employment to hundreds of thousands of people every year. All of this helps poor people and families to survive, send their children to school and obtain medical assistance. But none of it provides the kind of foundation for getting out of poverty that employment would.

Ultimately, the public provision of incomes, goods and services to the poor is a form of inclusion that is significantly less empowering than wage employment. In fact, no conceivable set of redistributive interventions could rival the potential of economic and employment growth to transform a country's fortunes. One way to see this is to think about China, where average per capita incomes have risen by nearly 250 per cent since the late 1990s. Such rapid growth has meant that even though inequality widened, poverty rates fell rapidly, with hundreds of millions moving out of desperate rural deprivation.

Aside from these weaknesses, attempting to expand inclusion principally through policies of fiscal redistribution and growing public sector employment, is increasingly unaffordable in an environment of collapsing growth. Such policies certainly cannot be extended unless and until robust economic growth resumes.

“To improve the prospects of the poor, we need economic policies that create jobs for the unskilled.”

We should not be misunderstood. Fiscal redistribution is a critically important response to South Africa's current poverty rates. However, there are limits to how far this can go when so large a proportion of the workforce is unemployed and therefore dependent on the wages of those who do have jobs. Nor are all forms of fiscal redistribution equally worthy: far too much of South Africa's redistributive effort amounts to redirecting incomes from tax-payers to (non-poor) civil servants whose delivery of services is frequently so ineffective that the impact of this spending on the life chances of the poor is negligible. We have far too many teachers who don't teach and nurses who don't nurse to count all of our spending in these vital areas as genuine, life-improving redistribution of income or opportunity. Making our redistributive spending more effective in the lives of the poor is a critical challenge for South Africa.

To improve the prospects of the poor, we need economic policies that create jobs for the unskilled. Redistribution, while important, is always going to be inadequate to the challenges we face; it will never achieve much more than the administration and amelioration of poverty, rather than its steady elimination.

Growth needs more than lip service

South Africa's developmental goals are clear: the reduction of unemployment, poverty and inequality; the transformation of the economy to better reflect the country's demographics; the creation of a just and inclusive society; and the consolidation of our democracy. However, debate about how to do all of this often fails to acknowledge that these goals cannot be achieved without rapid economic growth, sustained for a significant period.

Too many conflicting priorities are hurting growth

Of course government wants the economy to grow. The big problem is that it wants other things too, and the pursuit of many of these other goals reduces investment and productivity growth. At the same time, confusion of priorities makes it harder for new firms to start up and for existing firms to expand. Governance and delivery failures elsewhere – in the education and skills systems and across the public sector – have also weakened the foundations for economic growth. Decline in the managerial competence of the SOEs and of the quality of the oversight provided by their boards is undermining confidence that these critical institutions will be able to deliver the goods and services needed by firms if they are to be competitive. Already costs have risen significantly and the expectation of continued expensive decline and lack of delivery is hampering the confidence needed for growth.

The Reserve Bank estimates that, without major structural reform, the economy can no longer grow at more than 1.8 per cent a year – that is a third of the rate the NDP estimated was necessary to achieve its vision, and barely faster than population growth of 1.2 per cent.

Poor policies and governance affect the economy through their impact on the business environment, where regulatory intrusions (which are in any case often badly implemented), increase business risks and costs. We can see this in the labour market, where high levels of employment protection make it riskier for firms to take on new staff, a dynamic with particularly adverse effects on young and unskilled workers. We see it too in the development planning process, where zoning rules and approval processes are slow and unpredictable; in licensing procedures that are unnecessarily onerous and arbitrary; in inefficient management of a justice system that adds risks and costs to every form of litigation. The list goes on.

The business environment is affected by two other factors. First, the weakening of South Africa's public finances has increased the perceived riskiness of investment in the country, encouraging investors to look elsewhere. Second, the perceived weakening of property rights has lowered confidence in the security of asset-owners' rights. Policy changes that affect property rights – whether actual or proposed – will reduce investment and slow growth significantly. Examples of this can be found in:

- A mineral rights regime which has weakened and made more uncertain mining companies' ownership of rights to exploit minerals, and which may soon include rules that would force firms to sell 'strategic' minerals to local firms at below-market prices.
- Rules – actual and proposed – that prohibit foreign ownership of certain kinds of assets, including commercial farmland and private security companies.
- Shifting goalposts in employment equity and black economic empowerment rules, for example in relation to ownership targets, the dispute over the 'once empowered, always empowered' rule, and uncertainty about whether to use national or local demography in assessing affirmative action goals.
- Policy uncertainty in land reform, an area in which it is close to impossible to guess which proposals will be put into practice.

“Poor policies and governance affect the economy through their impact on the business environment, where regulatory intrusions increase business risks and costs.”

South Africa will not address its many socio-economic challenges without sustained inclusive growth. It's not just the material effects of growth that matter – the jobs and income created, the expanded quantity and quality of goods and services produced. Growing economies generate optimism and hope, a sense that the country is succeeding and that the prospects of individual citizens and their children are improving. These intangible benefits help make the promise of growth self-generating and self-fulfilling.

Despite the rhetorical commitment to faster growth, taken as a whole, South Africa's policies have reduced our growth rate. We need to put economic and employment growth at the top of our list of priorities. This means that all other policies need to be assessed in terms of their impact on the goal of achieving faster and more inclusive (i.e., more labour-intensive) growth.

Elite enrichment is trumping growth

South Africa's economy needs to become much more inclusive than it is to stand any chance of growing more quickly. This means that redistributing assets, incomes and opportunities to black South Africans is not just a moral imperative, but an economic one as well. But redistribution of the wrong sort could undermine growth and slow economic transformation.

Redistribution is an essential function of government and it is particularly important in South Africa after our long history of white domination. However, efforts to right the wrongs of the past have increasingly devolved into efforts that enrich members of a small elite. This shift diverts attention away from what needs to be done to generate the kind of growth required for sustainable, broad-based and rapid inclusion of millions of South Africans currently marginalised and excluded from the modern economy. The increasing emphasis on approaches that enrich a small elite is a key reason why overall inequality has not fallen, despite the reduction in the gap between average incomes of white and black South Africans over the past 20 years. Indeed, one estimate is that while inequality between races accounted for 61 per cent of all inequality in 1993, it accounted for only 35 per cent in 2008.

A telling example of how aspects of the elite enrichment agenda have undermined the pursuit of the country's core social and economic goals can be found in the SOEs. These institutions have been vital arenas for elite-focused transformation, having applied both affirmative action and preferential procurement policies more thoroughly and more rapidly than most other organisations. Cadre deployment has also played a greater role in the selection of SOE board members and managers than in any other economic sector. All this has led to considerable waste, inefficiency and corruption, producing in many institutions a state of chronic crisis. Goods and services vital to social welfare and the success of firms are not being delivered, and in many cases, prices charged by SOEs have risen steeply. SOEs have also squandered their potential to serve as training grounds for a new generation of technicians, operational managers and business leaders.

“The increasing emphasis on approaches that enrich a small elite is a key reason why overall inequality has not fallen, despite the reduction in the gap between average incomes of white and black South Africans.”

The effects of elite-focused transformation are not confined to the SOEs. The rules governing BEE and EE in the private sector have created an onerous schedule of regulations affecting who firms should hire, with whom they should contract, to whom their owners should sell shares, who should be employed, and with whom the state can contract. Apart from the costs of administering this system and complying with all its demands, the effect is that considerable time and energy of business owners and managers is taken up by compliance with transformation-related requirements. This is time and energy that, from the point of view of accelerating growth, might be better employed finding new business opportunities. There have been important gains from this, but, by and large, the beneficiaries of our transformation policies have been members of the middle class and elite deal-makers. Too many people have been excluded.

Economic growth in South Africa is not possible without transformation: not only does justice demand this, but the old, predominantly white middle class is too small a foundation on which to erect a dynamic entrepreneurial economy. However, too often the way policy-makers approach this issue ignores the fact that the structures and obligations put in place by BEE and EE also create costs. We need to find a way to align the goal of promoting economic transformation with that of expanding the economy as a whole and opening opportunities to all South Africans. That is not what we have today. A great deal of thought needs to go into how to create a system that better achieves the goal of expanding opportunities in the economy while imposing less of a burden on firms and their managements and without crippling the state.

Over the past decade, the pursuit of elite enrichment, poor policy choices across a range of areas, and an indifference to the ability of cadres deployed to manage SOEs and public institutions effectively, have increasingly trumped the pursuit of growth. The result is much slower economic growth, increased corruption and, ironically, much less transformation.

Without growth, South Africa's politics will decline into a progressively disruptive, increasingly racialised and radicalised squabble over a shrinking economic pie.

“Over the past decade, the pursuit of elite enrichment, poor policy choices across a range of areas, and an indifference to the ability of cadres deployed to manage SOEs and public institutions effectively, have increasingly trumped the pursuit of growth.”

Conclusion: South Africa's challenges

South Africa's current perilous state has at least as much to do with poor national policy choices as with the state of the global economy and the terrible legacy of apartheid. We are currently heading into a crisis mainly of our own making. Policy choices made by government have placed new obstacles on the economy's capacity to grow and to absorb the millions of unskilled workers bequeathed by apartheid and the unfinished business of improving our education system. By driving up the costs and risks associated with employing people, policy-makers have created a growth path that is too skill- and capital-intensive for a society with so many adults who have not completed even high school. Redistribution alone will never achieve much more than the administration and amelioration of poverty. To improve the prospects of the

poor, we need policies that allow for the creation of far more unskilled jobs. The country's approach to transformation, which has increasingly emphasised elite enrichment over mass empowerment through education and jobs, has generated policy uncertainty and corruption, raised the costs of doing business and slowed growth. We have managed to make South Africa anti-business and crony capitalist at the same time. This is a terrible combination for dealing with poverty, unemployment and inequality.

South Africa needs rapid and inclusive growth that is employment-intensive. All other policy goals need to be assessed in terms of their impact on this.

PART TWO: GETTING SOUTH AFRICA BACK ON TRACK

"Everyone wants growth, but no-one wants change." - Prof Paul Romer

South Africa is in a low employment, low investment, slow growth trap. Confidence in our leadership and institutions is falling, something that is reflected in the spread of protest action, which is sometimes destructive and violent, across the country. Few, if any would disagree that South Africa needs much faster economic growth and millions of new jobs. There is no reason why this should not happen, but what is missing is a clear appreciation of what will be needed to achieve it.

The first essential is to recognise the need for change by acknowledging that we are on the low road partly as a result of our own choices and that the country can choose to change direction. A new approach and new attitudes will require strong, persuasive leadership. A new growth agenda will need to be shaped by some broad guidelines for reform and will work best if centred around a limited number of essential priorities.

"South Africa is in a low employment, low investment, slow growth trap."

GUIDELINES FOR EFFECTIVE REFORM

Growth and jobs must top the agenda

Although policy-makers say they want growth, attention and resources are diverted by their commitment to other goals, some of which have resulted in policies that actually undermine growth. The first step towards accelerating growth and employment is for government to place this goal at the top of its policy agenda. Growth and employment must become the criteria by which the consequences, intended and unintended, of all other policy initiatives should be assessed. The non-negotiable conditions for achieving a more equal, just and stable society are rapid growth and inclusion through employment.

Without a determined focus and commitment to prioritise labour intensive growth South Africa will not transform nor steadily eliminate poverty.

Build on South Africa's strengths

At a time of widely-shared concern and rising anger, it is easy to lose sight of our strengths and all the more important to build priorities around them. Compared to many developing countries, South Africa has a number of important advantages. Chief amongst these are:

- The size and strength of the country's firms, which, measured on a per worker basis, are more productive than in most of the developing world.
- Our constitution and the high level of independence and legitimacy of our justice system.
- The credibility and integrity of some of the key public institutions involved in the management of the economy.
- We have several large cities, not just one overwhelmingly dominant capital city as in many other developing countries, and our cities are not yet choked by unmanaged construction.
- South Africa is a very attractive destination for foreign skills and investors, who look for desirable countries and cities in which to locate their families.

None of these strengths is unqualified and indeed many of them are under threat. Our firms may be productive, but South African companies are struggling in a low-growth environment and many are looking for ways to reduce exposure to domestic risks; the rule of law and the quality of our economic institutions are being white-anted away; the stability of our public finances is increasingly precarious; skilled people are emigrating; the cities face many challenges.

Notwithstanding these concerns, South Africa has considerable reserves of legitimacy and institutional capacity, so decisive changes to key policies could quickly reverse some of the recent declines. If this were to happen, we would find that many of the institutional foundations for growth and inclusion already exist.

“Complex societies with many challenges cannot fix everything at once. Nor do they have to.”

A manageable programme of priorities

Complex societies with many challenges cannot fix everything at once. Nor do they have to. In fact, attempting to work on too many fronts simultaneously risks paralysis through having to cope with too many vested interests at once, change fatigue, lack of management capacity, and unintended consequences. The country must have focused and realistic priorities.

The National Development Plan (NDP) is a valuable resource for the country and for addressing the concerns we have expressed in this document. However, at nearly 500 pages, in 15 chapters, each with its own set of priorities and recommendations, it is a resource bank of ideas rather than a call to action. In short, something more focused and economical is required.

A reform agenda needs a small number of achievable priorities, which if successfully addressed will create opportunities for further improvements later.

Tough choices needed now

To get off the low road we need to grow faster, which means we need higher levels of investment, which in turn means we need the confidence and belief that we can and will grow faster. And the only way to achieve this is by making a credible commitment to a focused strategy to move onto a different growth path. We need, in other words, to change tack; to admit to ourselves that the present approach is not working and that it is highly unlikely ever to work.

That is the first step. The second is to identify a small number of achievable changes to the existing policy framework that could deliver faster growth. The main purpose of CDE's Growth Agenda is to take this second step, and propose a programme of change based on a small number of catalytic priorities on which South Africa must make progress if we are to achieve and then sustain rapid and inclusive growth over a significant period.

Most reformers fail because they do not address the most important issues constraining growth. If South Africa is to get back on track and realise our potential as a society, we have to make the tough choices required now.

“Transformation needs growth and we will not achieve sustained economic and employment growth without transformation.”

THE GROWTH AGENDA: CATALYTIC PRIORITIES

The five catalytic priorities that would unlock some of the knots into which current policies have led the economy are:

- Rebalancing the approach to transformation away from elite enrichment to growth-driven inclusion and empowerment;
- Making sure that growth is much more labour-intensive;
- Reconfiguring the skills production system;
- Resetting the state-business relationship; and
- Embracing South Africa's urban future.

Each of these priority areas is dealt with in a companion report in the Growth Agenda series. (See www.cde.org.za) The one exception is the focus on raising labour-intensity, which is dealt with in two reports. We strongly encourage readers of this overview to read these stand-alone reports, which provide more empirical and analytical support for the arguments made here, and because they contain our more detailed recommendations.

In this next section we will not put forward all our recommendations, but will highlight the big ideas that inspire our detailed proposals and which illustrate the approach our research and analysis lead us to conclude will help South Africa make progress.

One: Transformation and growth must work together for all South Africans

Transformation needs growth and we will not achieve sustained economic and employment growth without transformation. The urgent need for transformation in the sense of broad redistribution of assets, incomes and opportunities to the benefit of the millions of people whose lives have been adversely shaped by

apartheid, is non-negotiable for South Africa's security and prosperity. It is also an essential part of the South African social contract. A just society requires that all South Africans become equal citizens with all that entails in practice.

However, state-led measures to achieve this have increasingly devolved into a system of elite enrichment. The effect of this has been to undermine the principal goals of broad transformation, increase corruption, and reduce the economy's capacity to grow. Key problems include the unduly intrusive approach to regulating enormous swathes of business activity (whom an employer hires, with whom a firm must partner, from whom it must buy inputs, etc.), endemic uncertainty about and unpredictable changes to established property rights, as well as the misuse of authority in state institutions and SOEs for reasons other than the national interest.

The country's current approach to transformation, its unintended negative consequences and its relationship to other national goals – notably growth and widespread inclusion – needs much more intensive and wider debate. For too long, we have ignored the mutual reliance of transformation and growth for each other's success and pursued one at the expense of the other.

CDE urges business leaders to take the initiative in this fundamental area. The country needs a new approach.

Business should fund a blue-ribbon commission on transformation and inclusive growth in South Africa. This high-level investigation should document and assess: what has been achieved thus far in both public and private sectors; what are the negative unintended consequences of the approach we have taken; and how current approaches have impacted on growth, employment creation and inclusion.

South Africa needs – and South African business needs – much more certainty about the course of transformation. Business should therefore commit resources to identifying the most effective strategy. That strategy needs to recognise the vital importance for broad-based transformation, of economic and employment growth and the development of a much more effective skills system. Equally, it needs to recognise that without opportunities for active inclusion in the economy for all South Africans, through employment, enterprise and skills acquisition, we will be doomed to economic stagnation which in turn will undermine the potential for many millions of citizens to improve their circumstances.

Such a commission would be a significant business contribution to a vital national debate. It would indicate that business leaders are committed to making a major contribution to resolving the country's challenges of poverty, unemployment and inequality beyond CSI initiatives. It would also help to shape a vital national debate on how best to pursue the linked goals of transformation and inclusive growth.

The current approach to transformation is not working for the majority of South Africans and it is undermining the key ingredient in making this vital national imperative a success – rapid, employment-creating growth. Getting the relationship between transformation and growth right, is one of South Africa's most urgent priorities.

“Business should fund a blue-ribbon commission on transformation and inclusive growth in South Africa.”

Two: South Africa needs a credible new strategy for inclusive growth

At present, three separate documents – the New Growth Path (2010), the Industrial Policy Action Plan (first published in 2009, but now in its seventh iteration) and the National Development Plan (2012) – address the question of national development and growth, and the policy choices needed to achieve it. They differ significantly from one another in tone and substance, with some of the differences being irreconcilable. The failure to settle on a single analysis and plan reflects incoherence at the heart of government thinking. The country needs one credible and agreed growth strategy.

Central to such a new growth strategy must be the recognition that faster growth is possible only if new businesses are able to start up and existing businesses are able to expand. This requires an enabling environment, which should be a core goal of government policy and which must include vigilant enforcement of anti-competitive practices across the entire economy, in order to unlock innovation and productivity.

An effective state is critically important for development and growth. However, state-led development is failing in South Africa: patronage appointments, cadre deployment, crony capitalism – all of them by-products of the wrong approach to growth – are leading to an economic and employment crisis. This does not mean that we should automatically denigrate the state and seek to shrink it at all costs. However, the unfortunate reality of present-day South Africa is that our state has become increasingly intrusive even as it has become more ineffective and corrupt. This is a costly and dangerous combination.

“An effective state is critically important for development and growth.”

Through the NDP, government has acknowledged the importance of a professional, merit-based civil service. This is welcome but insufficient. Firstly, to restore the battered credibility of public institutions, commitments must be made to making appointments based strictly on merit and public service values, not patronage, cronyism, factional or political loyalty. Secondly, technical merit alone is not enough: policy-makers and officials need a much greater appreciation of the ability of firms and markets to drive growth and recognition that it is their role to provide a supportive environment in which to make this happen.

Too many people still see the state as the job-creator of last resort. However, the fiscal space for this has closed completely. The only and most effective vehicle left for driving employment growth is the private sector. But private firms will not generate millions of new jobs until conditions exist that encourage the establishment and growth of many more enterprises.

From energy, infrastructure delivery, to housing, transport, schooling and healthcare, appropriately regulated but liberalised markets can deliver cost-effectively and very widely. Competition is good for growth; it should apply across the entire economy.

South Africa needs one growth strategy agreed across government, business and key parts of our society. This is an essential first building block to achieving accelerated growth and employment.

Three: South Africa needs jobs for the workforce that we have, not the one we wish we had

We need a new approach to growth because at the root of our structural crisis of unemployment and poverty are two failures of existing policy. We do not produce enough skilled and work-ready people to make a success of the high-skills growth path we have chosen; and we have also failed to face up to the challenge of including, through employment, the people who have been left out. They deserve more than managed poverty; we need to reconceive the kinds of jobs that firms can legitimately create.

Every country that has ever successfully developed has done so by moving people from very low productivity activities into higher productivity activities, initially mainly in low-skill manufacturing. Expanding South African employment options to include industries that use lots of unskilled labour is a precondition for improving the prospects of the poor.

In an ideal world, all jobs would be highly-skilled and highly-paid, and aiming high is commendable. However, South Africa needs to stop pretending that this is the world in which we already live. We must create work for the workforce we have and not the one we would like to have.

South Africa needs to expand the labour-intensive parts of our economy as much as possible. These sectors have been undermined by labour-market policies that have raised the cost of employment and created a structural bias towards higher wages. Since employers cannot know where these costs will be in the future, they have become increasingly reluctant to take on staff – especially unskilled and inexperienced young workers. Reforms to the country's wage-setting institutions are needed to rebalance this relationship and facilitate employment growth. (See the *CDE Growth Agenda series Report 2, Jobs.*)

“South Africa needs to expand the labour-intensive parts of our economy as much as possible.”

As a first step towards expanding low-skill employment in a way that does not threaten the competitiveness of firms with existing commitments to workers, we propose the establishment of an export processing zone in which labour relations rules would be substantially relaxed. The aim is to provide a globally competitive location for labour-intensive manufacturing activities in order to attract jobs relocating away from China in the wake of rising wages there. (See the *CDE Growth Agenda series Report 7, An EPZ for the Nelson Mandela Bay Metro.*)

A job is by far the most powerful motor for inclusion and enhanced human dignity. South Africa needs a new approach to employment growth. Re-interpreting the employment agenda to define as ‘decent’ any employment that offers workers a path to something better, and building a policy agenda around this, would enable a much more labour-intensive growth path to develop.

Four: South Africa cannot be pro-growth if we are anti-business

South Africa will not grow faster if policy-makers do not understand what firms need. Growth prospects will deteriorate further unless government attitudes become less anti-business.

At the core of what sensible states do for their economies is the realisation that, important as government's role might be, it is firms subjected to competitive pressures that drive societies' increasing prosperity. Responding to these pressures is hard enough to do when government understands firms' needs; it is that much more challenging when governments are unsympathetic and the policy environment is unsupportive.

South Africa's business environment is shaped by government's deeply held suspicion that the pursuit of profit must almost always lead to adverse social and developmental consequences, and that firms, particularly larger ones, are stubborn obstacles to transformation. It is for this reason that government has imposed a wide range of obligations on firms that make more complex the solving of the business and commercial challenges that should be the core focus of owners and managers' attention. This makes it less likely that new businesses will be created, or that they will survive and grow.

“South Africa's business environment is shaped by government's deeply held suspicion that the pursuit of profit must almost always lead to adverse social and developmental consequences.”

If, as government professes, it wants growth and it believes the private sector should invest and create jobs, then it cannot shirk the responsibility of defending markets and business in the face of populist rhetoric about 'monopoly capital' from its own support base (and sometimes cabinet ministers). In addition, if government genuinely believes that (in the recent words of a senior minister) the state needs to partner business in order to unlock private-sector growth as the way to achieve its developmental goals, it should listen closely to what business needs to deliver growth – small business as well as large companies.

If government wants rapid growth and accelerated employment, it has to ensure an environment where private companies and new investors feel welcome and encouraged to risk capital in this country rather than divert interest and resources to other countries. South Africa needs ministers and senior officials who recognise what firms require in order to survive and prosper.

Five: Business must get its own house in order

That far too many senior politicians and civil servants approach business with suspicion and mistrust is an important reason why a supposedly pro-growth government has adopted anti-growth policies. However, responsibility for improving the relationship between business and government, state and market, is not government's alone. Organised business and business leaders have approached engagement with the state and wider society in a new democracy in an ineffective way.

Up to now, in the face of public scepticism and government suspicion, business has been too wary of public engagement, conceding too much ground to its opponents. One damaging effect is to marginalise supporters of market reform in and around government and mute the case for private sector growth. Instead of public debate, business has relied on the supposed ability

of business leaders to build the kind of personal relations with senior politicians needed to shift policy. This flawed approach to business engagement with government means too much time is spent 'going along to get along'. Instead of constructively arguing for a different approach to economic policy, there has been public silence about inappropriate laws and regulations, bad governance in SOEs, inappropriate senior appointments and weak policy implementation. In private engagement, business has been on the back foot, trying to persuade government not to do things that reduce business activity, rather than making a case for the changes required to create an environment conducive to business expansion.

In democracies, the 'public square' really matters. Business has to make the public case for prioritising private sector-led economic growth and explain how an expanding economy can create many new jobs. Given the anti-business instincts of many South Africans, neglect of the public arena has been mistaken.

Two immediate steps could help. First, the generosity of CSI initiatives notwithstanding, the real 'good story' is embedded in what business achieves by doing business, producing the goods and services people want and need, and, in the process, creating employment and tax revenues. This should be the starting point of engagement with both government and the general public about how to accelerate inclusive growth.

Second, business needs to put more resources into broad strategic communication and engagement, promoting markets and companies in South Africa and developing and promoting a policy agenda to support economic and employment growth.

Business has to do more than participate effectively in the national public debate. A fundamental rethink is required in many sectors with respect to management attitudes and practices. Possibilities for worker engagement and participation, including a more equitable sharing of productivity gains, should be considered. Executive pay and bonuses that are not related to company performance are not justifiable. Companies should also reassess how they are opening up opportunities for black South Africans, vigorously publicise achievements and honestly evaluate what more could be done with respect to appointments, sub-contracting, racist attitudes in the workplace and opportunities for advancement.

Business needs a coherent strategy to make a strong case for how to achieve rapid inclusive growth that also includes the interests of small business. It needs to be a strategy for engagement not only with government but also a wider public, many of whom are sceptical of corporate South Africa's bona fides.

“Business has to make the public case for prioritising private sector-led economic growth and explain how an expanding economy can create many new jobs.”

Six: Skills are vital at every point in the growth agenda

Rapid growth, an effective state, increased employment and widespread inclusion all depend on our getting better at how we produce skills for more and more South Africans at all levels of education and training. The prospects of transformation and achieving justice in our society also depend on broad access to quality education and training.

There are two ways a country can gain access to new skills. The most important is by providing quality education and training combined with on-the-job learning. The second is by making up for any shortfalls in domestic skills acquisition by recruiting them from elsewhere in the world. In an ideal world South Africa would be good at both of these. In reality, we are good at neither.

Much attention has been focused on the contribution of a failing basic education system to skills shortages and it is important to see how the costs of this failure multiply throughout the rest of the system. (See CDE's many publications on this topic available at www.cde.org.za)

However, our focus in the priorities for the growth agenda has been on vocational education. This is because South Africa has both a chronic shortage of mid-level technical skills and a crisis of youth unemployment. This is demonstrated by the 'not in education, employment or training' phenomenon (NEET). In South Africa there are 3.4 million NEETs in the age group 15-24, compared to a total of 1.35 million in universities and colleges. In order to address the growth constraints exemplified by this shocking figure, the country needs an accessible and quality educational alternative to degree or diploma studies. Government's plans for post-school education heavily emphasise expansion of the technical and vocational education and training route, accessed through TVET colleges and the sector is targeted for greatly increased expenditure.

“Educational reform takes time. Until we have a much more effective skills pipeline, we should take advantage of the benefits foreign-trained workers can deliver to South Africa’s economy.”

Addressing the 'missing middle' of technical and vocational skills through the expansion of student numbers in TVET is to be welcomed, but sufficient attention has yet to be paid to strengthening the public colleges that will carry forward this policy choice. Quality is poor, wastage is very high and links to the world of work are very weak. Unless these issues are addressed, we risk repeating the mistakes that have plagued basic education over the last 20 years. The key priority is to combine quality in skills development with expanded access. In this respect it will be important to:

- Encourage much greater private sector participation by providers and employers;
- Promote greater accountability in public TVET colleges; and
- Improve the supply and quality of instructors at public colleges, especially by recruiting instructors with workplace experience.

Educational reform takes time. Until we have a much more effective skills pipeline, we should take advantage of the benefits foreign-trained workers can deliver to South Africa's economy. We need to energetically go out and attract skills and entrepreneurs in large enough numbers to supplement our own resources and make a real difference to our growth prospects. We need to abandon the attitude that there is a fixed and precisely-calculable shortage of skilled people in each category of work. Instead we should base policy for skilled immigration on the idea that we need 'skills to create skills' and that additional skilled and entrepreneurial people will help create economic opportunities and jobs for South Africans. We should recruit as many highly-skilled people as we can.

If South Africa does not improve the quality of post-school technical and vocational training, we risk repeating the mistakes of basic education – expanded access but very poor quality output. Rapid growth could be boosted dramatically if the country was serious about attracting foreign skills of all kinds in large numbers.

Seven: South Africa's future is urban so policies, power and resources must catch up with this reality

Cities produce more than 80 per cent of global economic output. No country has grown to middle-income status without urbanising, and none has grown to high-income status without vibrant cities. Cities, therefore, are key platforms for national, regional and global growth.

The economies of South Africa's major cities consistently outperform those of its towns and rural areas. The eight largest cities ('metropolitan areas') are home to about 37 per cent of South Africans, yet they account for 59 per cent of economic activity. As a result, average per capita income in the metropolitan areas is about 60 per cent higher than the national average, and nearly four times higher than in the rural areas. Despite their superior economic performance, including much higher levels of employment, policy-makers have never fully embraced urbanisation and the merits of urban growth.

South Africa has always been a reluctant urbaniser with a long history of resistance among policy-makers to facilitating more rapid urbanisation, and prioritising urban management. Apartheid-era planners actively opposed black urbanisation. Today, uncertainty about how to address the apartheid spatial legacy has slowed and distorted what might have been a more rapid and successful process of post-apartheid urbanisation. It is noteworthy how little attention is paid to the cities in the NDP. However, if the South African economy is to grow more quickly and if it is to do so in a way that creates mass employment, this can only happen in our cities.

National development policy needs to recognise that cities are a source of strength – perhaps the country's greatest – and of comparative advantage. As such they should be at the centre of our growth strategy. Cities need a far greater role in national policy-making processes – larger metros, for example, need direct representation in meetings of the extended cabinet (which include provincial premiers) and in other councils of state – and in the decisions affecting infrastructure by SOEs and the rest of government. Cities need additional powers, along with greater accountability to residents, including directly-elected mayors in the largest metropolitan areas.

Cities themselves need to put growth and employment at the heart of urban strategy. This requires a focus on making cities more attractive places for business start-ups, investment, innovation and employment. World Bank research demonstrates that South African cities currently lag far behind India, China, Brazil, Mexico, Kenya, Chile, Malaysia and many other countries in the number of days it takes to start a business. City governments must enact and lobby for policy changes that enable local enterprises to grow and hire more people. Policies must accelerate growth in the city as a whole; this will be the strongest dynamic in expanding opportunities throughout the city and undermining the apartheid legacies. Coupled with much better public transport for the poor and a much-revised housing strategy, competitive markets and entrepreneurs can play greater roles in urban delivery.

South Africa needs to end its ambivalence about urbanisation. An urban-led growth and employment strategy is the only way forward.

“If the South African economy is to grow more quickly and if it is to do so in a way that creates mass employment, this can only happen in our cities.”

Getting SA back on track: Summary

In sum then, our big ideas illustrating the wealth of insights and recommendations in our six other documents in the CDE Growth Agenda series capture the key priorities at the heart of our approach to achieve rapid growth, mass employment and inclusion. They are:

- Transformation and growth must work together for all South Africans to benefit and not just an elite;
- The country needs a credible new strategy for inclusive growth;
- South Africa needs jobs for the workforce that we have not the one we wish we had;
- The country will not succeed if government is pro-growth but anti-business;
- Business must also get its own house in order;
- Skills are vital at every point in the growth agenda; and
- South Africa's future is urban so policies, power and resources must catch up with this reality.

“The bottom line is this: South Africa needs accelerated growth that is urban-led, private sector-driven, enabled by a smart state, and targeted at mass employment.”

CONCLUDING REMARKS

The bottom line is this: South Africa needs accelerated growth that is urban-led, private sector-driven, enabled by a smart state, and targeted at mass employment.

South Africa's history has left millions of South Africans out of the modern economy, without work, without hope and without access to the opportunities that many of us take for granted.

To remedy this, South Africa needs to put its faith in the revolutionary impact of rapid, labour-intensive economic growth. As we can see from the experiences of many countries, rapid growth for 10 or 15 years would result in a fundamental transformation of South African society, opening up opportunities for all and especially the poor.

If the right choices are made, we can bring about a dramatic change in the architecture of opportunity for all black South Africans. This can only happen in a context of rapid employment and economic growth. If this can be coupled with a capable state, which uses tax revenues effectively, maximises the role of the private sector, and acts in the national interest, the beneficial results would be enormous.

To achieve this, South Africa will need a new approach, incorporating a new set of guiding principles. We need to recognise that more of the same will not accelerate either economic or employment growth, only the right attitudes and bold policy choices, carried through by determined leaders and competent managers acting in the national interest, will do.

Leadership begins with the hard-headed appreciation of the need for fundamental reform. Vested interests in the status quo have considerable influence and change is a demanding task. Many attempts at reform here and elsewhere have failed because the toughest and most important issues are left for later. South Africa today cannot afford to make this same mistake.

Government's half-hearted adoption of market reform in the first decade after 1994 led to opposition and retreat into a failed model of state-led development. Government and business's failure to make the public case for markets, companies and accelerated, labour-intensive growth has strengthened the already-influential voices of those who are anti-market, and contributed to a weakening of those in government and the alliance who might support pro-market reform. The debate about South Africa's growth path has been too narrow with anti-market, statist approaches dominating without alternative ideas and frameworks competing for attention.

Our conception of black economic empowerment needs to move from elite enrichment to one that aims to include the millions of people denied a decent education or any real prospect of employment. There is simply no way that South Africa can change the lives of the vast majority of its population without rapid, labour-intensive economic growth.

Rapid growth requires a speedy expansion of the numbers of South Africans with the decent education, skills and opportunities to help drive growth in many different ways. South Africa has to reconceive the relationship between growth and empowering tens of millions of poorer South Africans.

We need to embrace a vision of national development and economic growth that is urban-led, and which invests resources in the areas that are most likely to generate the greatest returns – our biggest cities. As South Africa's growth engines, these cities could spearhead the dramatic transformation of life chances for millions of people. As their economies grow, the spatial legacies of apartheid could be progressively eliminated, while more and more opportunities for poor residents will emerge.

If we make the tough choices required to pursue these goals, the lives of the majority of South Africans can change for the better in a generation.

“If we make the tough choices required to pursue these goals, the lives of the majority of South Africans can change for the better in a generation.”

The CDE Growth Agenda Series

This series consists of seven reports.

1. Summary overview: Insights and key recommendations
2. Jobs
3. Accelerating inclusive growth
4. Cities
5. Skills
6. Business and government
7. An export processing zone for the Nelson Mandela Bay Metro

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