

Statement of the Alliance Economics Summit 19th October 2008-10-19

The Alliance Economic Summit met on the 17th and 18th October. The focus of our Summit was to consolidate the economic policy perspectives that will inform our common election manifesto as we move towards an ANC-led election campaign in the coming months. The ANC government, with a renewed popular mandate, must be able to hit the ground running after next year's elections.

We know that millions of South Africans want to know what we will do together to greatly speed up ensuring decent work for all, in overcoming poverty and deep-seated inequality, and in addressing rural marginalisation. The challenges of transforming the health and education sectors and the criminal justice system are also key challenges.

The Summit agreed that much has been achieved over the past 14 years, and that much still needs to be done. There are many policies and programmes on which we can build. Other policies require review, and in many cases persisting problems relate to poor institutional coherence and coordination within the state.

There is the need for both continuity and change.

The Summit occurred in the context of an extremely grave financial market crisis with its epicentre in the US. South Africa's financial sector has borne up relatively well and for several reasons, including, as is widely acknowledged, remaining exchange control measures. But the global economic crisis will certainly impact upon South Africa's economic growth prospects over the next years and pose challenges for job creation and other developmental goals. The global crisis will also impact upon our persisting systemic points of vulnerability – currency volatility, the current account and inflationary pressures.

All of these challenges require fundamental micro-economic interventions that transform the structural character of our economy. However, macro-economic interventions need also to be constantly monitored in this turbulent situation. It was in this specific context that the Summit addressed macro-economic policy. It was agreed that the Alliance, working closely with our colleagues in government, should set up a task group to receive reports and to assess the effectiveness of our macro-economic policies in the face of the global crisis, and to evaluate possible measures to ensure a relatively stable and competitive currency.

The Summit had a constructive engagement on a range of macro-economic policy choices, including inflation targeting, and the broader role of monetary policy in line with the ANC's 52nd National Conference resolutions which prioritise the creation of decent work. These discussions will continue in the task team referred to above.

The meeting discussed a wide range of economic policy and governance issues, including:

- Ø The development state and planning
- Ø Employment and Trade and Industry policy
- Ø Macro-economic policy
- Ø Comprehensive social protection
- Ø Agrarian reform, food security and rural development
- Ø Developmental financial institutions
- Ø Water supply
- Ø Transformation of the criminal justice system

Among the main conclusions reached were:

Planning and Co-ordination in Government

The Summit *agreed* that there was the need for a high level planning, evaluation and monitoring capacity in government. To pursue this, it is proposed, as a preferred option, that a Planning Commission needs to be set up, headed by the Presidency. This Commission would have the power to align the work of all Departments of government and organs of state to government's developmental agenda. The Planning Commission would *inter alia* promote the alignment of government budgets with developmental planning, set broad targets through medium term and long term plans, conduct Strategic risk assessment, and Act as secretariat to the Council of State

It *supported in principle* the need to develop and consider proposals for the restructuring of Cabinet, and reconfiguration of government Departments, in a way which would most coherently advance our developmental priorities. It supported the need to consider the setting up of a two tier Cabinet structure, presided over by a Council of State comprised of Senior Ministers heading key clusters/ areas of government work, with a second tier Cabinet. The restructuring of government must be handled in a way which ensures that government's developmental agenda is not unduly disrupted.

It was agreed that further detailed work is required on all these proposals, including on the configuration of Cabinet, Government Departments, and State institutions. It was further agreed that a conference is required to consider how to deal with the role of Provinces and Local Government.

Trade and Industry and Employment

A lengthy and detailed resolution on Industrial and trade policy was adopted. Key elements include:

The creation of decent work for all South Africans, including the unemployed and underemployed, must be the primary focus of all economic policies, including industrial and trade policy. The activities of all government departments, parastatals and DFIs, should be reviewed to ensure more purposeful achievement of decent work outcomes.

A major shift and upscaling of industrial policy with significant additional resources, complemented by a more effective managerial and implementation capacity. Industrial policy must lead transformation of the economy instead of simply following investment decisions. Both exchange rates and interest rates need to be calibrated to take account of industrial policy imperatives. This will require, among others, a discussion on the mandate and practices of the SARB to include considerations of employment and economic growth in addition to the mandate on price stability.

Summit considered the current global turbulence in financial markets. We believe that the fallout of the crisis is likely to impact negatively on the local economy and call on government to take active steps to ensure that the economy and jobs are not damaged. This calls for strengthened industrial policy measures and the development of a rapid-response capacity including defensive measures that may need to be invoked.

Decent work embraces a number of dimensions: from increasing the quantity of work available to all South Africans, to improving the quality of work for workers; to ensuring rights to join trade unions and bargain collectively and a society free of child labour and forced labour; to promoting social dialogue. The ANC Election Manifesto will spell out what decent work means for the unemployed, for women, for those in the informal sector, for those in vulnerable sectors, for organised workers, for those in insecure forms of employment and for those exploited by labour brokers.

Government has a variety of financial and non-financial instruments which it can use much more actively to leverage productive assets in the economy, to achieve decent work outcomes, to meet basic needs, promote technological innovation and improve beneficiation and local value addition. These include:

- **Fiscal incentives, which must be** attached to strong and enforceable conditionalities.
- **Development finance.** DFI's including the IDC, NEF DBSA and Land Bank need to be aligned more directly to industrial policy objectives.
- **Public procurement.** The review of public procurement legislation needs to be broadened to include substantial scope for promoting industrial and other developmental policy objectives.
- **State-owned enterprises (SOEs).** Decisions about the types of public investments to be made and their pricing and reliability will have a fundamental effect on our manufacturing path.

- **The Public Investment Corporation.** The PIC is a major shareholder and investor in the economy, which needs to leverage investment and shareholder activism to advance industrial policy objectives.
- **Competition Policy and Regulation.** The competition authorities can use available and new, stronger tools to address corporate action that is against the public interest such as price-fixing and collusion and to promote employment in consideration of mergers and acquisitions. The Competition Act should be amended to make considerations of decent work an explicit goal of the competition authorities.
- **Trade policy** has a developmental role to play with respect to a range of instruments including import and export tariffs, safeguards, bilateral agreements, contingent protection and standards.
- **Licensing and permits.** Need to be used to promote industrial policy objectives such as downstream beneficiation.
- **Black economic empowerment** needs to be subject to industrial policy objectives more clearly and explicitly.
- **Prescribed investments:** Government should consider introducing requirements on investments to promote investment in social infrastructure, housing for the poor and job creation.

Trade negotiations: The “package” presented at the July WTO Ministerial does not meet the developmental mandate agreed in Doha in 2001. South Africa cannot accept an outcome imposing large cuts in applied industrial tariffs that will threaten jobs in vulnerable industries and curtail industrial development policy space. If the final package does not provide substantially greater flexibilities and higher trade coefficients so that our sensitive sectors can be properly shielded and policy space for future industrialisation be adequately retained, we should not sign the package.

SADC integration should be based on a developmental model that includes infrastructure development, cooperation in the real economy including the development of regional supply-chains instead of the current narrow ‘free-trade’ model.

Summit urges government to urgently address the situation of vulnerable sectors to ensure that the immediate threats of job losses and trade destabilisation are addressed.

Co-ordination: The success of industrial policy will require strong coordination by different government departments and agencies. National Treasury should work in partnership with the DTI including in making funding available for industrial sector plans and programmes.

Industrial policy should promote a mixed economy with a strong social economy, private sector and public sector. Development of coops and other forms of social economy ownership must be improved and further supported.

Resource-based policies should ensure maximum downstream economic activities through beneficiation to increase the level of jobs in the local economy and this framework should embrace minerals, agriculture and the marine sector. Infrastructure needs to be biased towards growing increasingly diversified and complex manufactured exports rather than encouraging the export of un- and semi- beneficiated exports of bulk commodities.

Industrial policy can play an important role in ensuring decent standards of work and a growing income for workers. Practices such as labour broking and casualisation should be reviewed given the damage they cause to labour standards. Regulation should be introduced to address this matter.

Summit notes with concern the high levels of executive pay in the corporate sector and SOEs as well as the huge income inequalities in the labour market. It calls for consideration of ways to promote more equitable income outcomes.

Summit urges an expansion of skills development policies. The quality of the skills and education institutions is a major determinant of the success of industrial policy. This requires a strengthening of institutions such as SETA's together with a much stronger alignment between sector strategies and SETA targets.

It was agreed that in implementing the decent work agenda, as defined by the ILO we must, *inter alia*:

- Ø Aim to create five million new jobs
- Ø fast track development and implementation of sectoral programmes
- Ø Use the more realistic expanded figure for unemployment.
- Ø Fast-track existing job-creation programmes
- Ø Review the proposed closure of nursing, education and agricultural colleges
- Ø Improve service delivery in public sector

To achieve these objectives, it was agreed that we need to develop a growth path which actively promotes employment creating investment, as opposed to the cycle of consumption led speculative growth

Comprehensive Social protection

The meeting agreed that poverty remains widespread and agreed on a policy based on three pillars:

1: The basic social “endowment” that everyone must have, including the concept of a social wage (free basic water, electricity, sanitation, basic education, subsidized housing) is included.

2: Individuals being in a position to access the following benefits- health insurance, retirement benefits, disability, occupational accidents, and unemployment.

3: Social security-type benefits that are voluntary and Government has an important role to regulate the private market to ensure consumer protection.

Policy proposals, which the Commission proposed, needed to be discussed by the Constitutional structures of the Alliance included:

- Ø A Department of Social Security
 - Ø The extension of child –support grants to 15-18 years-olds
 - Ø A flat benefit for unemployed workers whose UIF has expired
 - Ø A basic income grant, linked to skills development
 - Ø A mandatory contributory social insurance system
 - Ø A uniform national pension scheme
 - Ø An Ombudsman for social security to deal with complaints
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- Ø Implementation of a National Health Insurance scheme, with free health care at the point of delivery

A number of these proposals require further discussion within the Constitutional structures of the Alliance before they are finalised.

It was agreed that the necessary steps would be taken to realign Departments and ensure proper co-ordination to implement this agenda of social protection for all. Further, the relevant structures of the ANC and Alliance would together elaborate a programme to ensure that the necessary funding for these programmes was secured and integrated into national budgets.

Water allocation

National and local government need to take a stronger regulatory role. The Summit agreed that we face major problems in ensuring sufficient and safe supply of water. The priority is to extend the availability of water to all communities and to ensure that it is clean and safe. National and local government need to take a stronger regulatory role to ensure quality and protect the environment. Water rights must be reviewed to ensure equitable access, particularly to small, emerging farmers.

Development Finance Institutions

The Summit agreed that DFIs, like the DBSA, Land Bank and National Housing Finance Corporation, have an important role to play in development, though the private financial institutions also need to be involved in development. The Summit demanded the urgent implementation of the Resolution of the Growth and Development Summit that 5% of all the financial sector's investible assets should be invested in socially beneficial projects.

It was agreed that there should be a National DFI Council, to co-ordinate better the different DFIs and avoid overlaps and streamline them so that each has a specific strategic area for investment. These areas should be:

- Ø Industrial development
- Ø Infrastructure finance
- Ø Agricultural development
- Ø Housing finance
- Ø SME finance
- Ø Microfinance
- Ø Targeted groups (women, youth, disabled)

Agricultural reform and rural development

The Summit restated its commitment to accelerated land redistribution. A media report suggestion the opposite is totally groundless. There is under-utilisation of land and continued vertical integration and price fixing in the food chain. The willing-buyer/willing seller clause has to be abandoned and access to water for irrigation made more equitably available for emerging farmers.

There must also be a moratorium on the sale of government land for golf courses and game parks rather than agriculture.

It was agreed to consider re-establishing marketing boards, and to democratise customary land in order to make it more accessible to women.

Policy must be geared to increase food production and safeguard food security so that we rely less on imports.

In the meantime emergency measures are needed to bring relief to those struggling with rising food prices.

An alliance task team, with government departments, must drive forward rural development, prioritising infrastructure.

Criminal justice system

The Summit discussed a report on serious shortcomings in the criminal justice system. It was agreed that it is an urgent priority to increase our capacity to fight crime. There needs to be a co-ordinated system that monitors each crime from reporting to conviction.

The process must be people-driven and people-based. If the police and courts are to regain the trust of the people, they must be seen to be serving all people equitably and efficiently. That is why visible policing is so important.

Macroeconomic policy

The meeting agreed that policy must be guided by the Freedom Charter call that “The people shall share in the country’s wealth”. Decisive action is required to transform the patterns of wealth production and distribution

Macroeconomic policy needs to support economic development and employment creation. Interest rate policy, while continuing to be directed at containing inflation should also be sensitive to its impact on the productive economy and employment. The priority, in line with the Polokwane resolutions, is to create decent jobs and combat poverty and unemployment.

It was agreed that the systemic crisis in the global economy could have serious short-term repercussions for South Africa but could ultimately mark a watershed in the world balance of forces, and close the chapter of the ‘Washington Consensus’. We must identify threats in advance and take defensive measures.