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MAKING SENSE OF IT ALL

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The National Development Plan and the Pretence of Knowledge

Socialist Planning in a Constitutional Liberal Democracy

"*There is no such thing,*" wrote Ludwig von Mises, "*as a just and fair method of exercising the tremendous power that interventionism puts into the hands of the legislature and the executive. The advocates of interventionism pretend to substitute for the -- as they assert, "socially" detrimental – effects of private property and vested interests the unlimited discretion of the perfectly wise and disinterested legislator and his conscientious and indefatigable servants, the bureaucrats.*"[1]

The National Development Plan is that "tremendous power" in the hands of "indefatigable bureaucrats" on full display. Its nearly 500 pages pour forth with moralistic social prescriptions, grand visions, intemperate forecasts and raw collectivism.

ETM resolved to study the NDP comprehensively to highlight its key features for clients and inform investment strategy. After all, this supposedly is the plan crafted by government in 'broad consultation' with a wide-range of 'stakeholders' that's received broad buy-in from the ranks of South Africa's business leaders and will control the nation's economic trajectory for the next two decades. Finance minister Gordhan ratified it when he informed South Africa on 23 October 2013 that the "*MTBPS outlines government's intent to...implement the National Development Plan.*"

The NDP, which began being drafted in 2010, envisages a 20 year plan to 2030 in which South Africa becomes a developed economy. It sets out far-reaching, ambitious plans and wish-lists for the economy and its infrastructure, environmental sustainability, rural development, integration with the African economy, organisation of human settlements, education, health, social welfare, safety and security, corruption and transformation. It is numbing, gargantuan central planning from start to finish, meandering – often incoherently – between fanciful speculation and bold prescriptions, heady forecasts and questionable historical interpretation, subtle suggestion and untested assertion. One is never easily sure in the NDP what is merely word-padding discussion, what is policy recommendation, and what is pure conjecture.

It is abundantly clear though that the NDP portends a remorseless rise in big-government developmental statism. On almost every page of the NDP there is another reminder that this document is overarchingly about appending an even larger Leviathan onto the back of an already burdened private sector, and the implication is more state spending, borrowing, and taxation.

It's also evident that the NDP's economics is a re-hash of the Department of Trade and Industry's IPAP, except it's more explicit and ambitious on jobs and growth targets. The overtly Marxist minister of Trade and Industry, Rob Davies, is the architect of the NDP's economic policy. His web of industrial winner-picking, subsidisation, regulation, incentives, and protectionism betrays a deep interventionism aimed at channelling South Africa's industrial path according to his department's blustery dictates.

Not All Bad

The NDP affords mild recognition of a need for more flexible labour markets, even if its proposals in this regard are weak. Small business is placed in rhetorical cotton wool but proposals to invigorate activity are a little limp. It recognises that mining regulation needs to be more predictable and globally competitive. There is lip-service to market reforms in energy, and freer market tenure of RDP houses. It concedes the need for imported skills and easier travel across borders in the region. Fixing education is seen as key, although the 'how' is perhaps naively ambitious.

We summarise the NDP proposals below, assessing if a proposal is good, bad, or ugly economically, and also its likelihood of being implemented. Costly, complex or politically difficult proposals are generally considered less likely to be implemented. Regulatory proposals tend to be more likely to be implemented. Useful but expensive or ambiguous plans may straddle 'Good' and 'Bad'. 'Ugly-Likely' policies are most dangerous while 'Good-Likely' are highly realisable, sound economic stimuli.

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[1] Human Action, 1949

ETM Analytics - National Development Plan Summary Analysis

<table>
<tr><td></td><td></td><td colspan="3">Economic Merit of Policy</td></tr>
<tr><td></td><td></td><td>Good</td><td>Bad</td><td>Ugly</td></tr>
<tr><td rowspan="8">Likelihood of Implementation</td><td>Likely</td><td>• Maintenance of a flexible exchange rate regime
• Adopt a more open approach to skilled immigration
• Ordinary unfair dismissal protections should not apply to employees on probation (max 6 months of service)
• Simplify pre-dismissal procedures for employers
• Compliance on employment equity & skills dev reporting should be simplified for small firms or eliminated for very small firms</td><td>• Balancing act on monetary policy between inflation & growth
• Rand policy of fostering competitive devaluation
• Youth wage subsidy
• Add youth as focussed beneficiaries of affirmative action policies
• A greater role for development finance to favoured groups
• Greater centralisation of economic planning in the Presidency</td><td>• Greater price controls in key sectors
• Broader mandate for the SARB: exchange rate & employment
• Larger role for the state in service provision, regulation, consumption and resolving market failures
• Greater regulation of labour broking industry
• Greater industrial protectionism & picking winners
• Stricter oversight of sectoral minimum wages</td></tr>
<tr><td rowspan="3">Maybe</td><td>• Simpler trade tariff structures
• Re-allocate economic diplomatic presence towards countries with the potential for expanding trade opportunities & market share
• Devolution of public bargaining councils for greater flexibility
• Simplify the regulatory environment for SMMEs
• Ensure greater certainty in respect of mineral property rights
• Amend the Minerals & Petroleum Resource Development Act (2002) to ensure a predictable/competitive/stable regulatory framework
• Make market reforms in the energy sector; more private generation
• Review sales restriction on RDP houses, more flexibility for owners
• Multi-year wage agreements for essential public services</td><td>• Build a stronger social security net
• Export-led growth promotion by subsidies & weak rand policy
• Even greater oversight role for the Competition Commission
• Increased local procurement policies
• Subsidies for job placement agencies who place matric graduates
• More efficient monitoring & enforcement of affirmative action rules
• Mandatory targets for socioeconomic development & job creation for all tenders above R10 million
• Subsidies to private sector providers of SMME support services
• Widen access to reduced electricity tariffs for low income families
• Provide incentives for public-transport use.
• Government surety for student loans</td><td>• Greater role for the state in organising the direction of SA trade
• Greater competition/price regulation
• Credit/Loan subsidisation to poor households
• Govt to ensure credit extension to businesses is increased
• Direct state capital deployment/investment in favoured sectors</td></tr>
<tr><td colspan="2">• Ensure banking pricing is more competitive
• Substantial investment in irrigation infrastructure, including water storage, distribution & reticulation throughout SA where the natural resource base allows, as well as in water-saving technology
• Greater, urgent investment in rail, water & energy infrastructure (bulk infrastructure)
• Expand refinery capacity</td><td></td></tr>
<tr><td></td><td colspan="2">• Consider export taxes in mining & minerals supply chain to deepen domestic supply chain linkages
• Expand public funding for alternative types of low-income housing to support the construction sector</td></tr>
<tr><td rowspan="4">Unlikely</td><td>• Union wage increases should be linked to productivity
• Aligning all legislation/codes/charters that flow from BBBEE Act
• Have a greater entrepreneurial focus in the school curriculum
• Focusing education into technical & academic streams after grade 8
• Establish vocational & technical training for grades 9 & 11 students
• Regional tourism promotion with "Schengen-type" visa for SADC
• Significant consequences for public officials/staff for not reaching social or economic delivery targets
• Tax breaks for corporates who run mentoring programmes</td><td>• Greater role for the state in funding and guiding industrial R&D
• Fund agricultural technology, carbon emission R&D
• Govt invest heavily in helping mining sector reduce carbon footprint
• Consider buffering manufacturers from the effects of rand volatility
• Compulsory school enrolment in various school grades
• Greater health & safety regulation</td><td>• Consider quotas for credit to the business sector like in India
• Public employment schemes (public works) to make 2 million job opportunities constantly available by 2020
• Tax/payroll-funded, equal standard, universal public healthcare (NHI) involving high levels of cross- subsidisation for poor households</td></tr>
<tr><td colspan="2">• Strip Eskom into two separate parastatals
• Improve/streamline institutional arrangements for public-private partnerships
• Expand learnerships and make training vouchers directly available to workseekers
• Strengthening the CCMA and the Labour Court in dispute resolution
• Develop a national ICT strategy that cuts across government departments and sectors</td><td></td></tr>
<tr><td></td><td colspan="2">• Carbon tax with certain sectoral exemptions
• Transfer 20% of rural agricultural land to black farmers</td></tr>
<tr><td colspan="3">• State must treat private actors/business as partners in policy design & implementation
• Bring administered price inflation under control
• Expand renewable energy sources dramatically through public funding and private subsidies & promote energy saving</td></tr>
</table>

Notes
-Policy proposals that are specific are bolded in black;
-Those that are unbolded in black are only partially specific;
-Unspecific proposals are grey.

The NDP Demystified

The NDP is a vast document of tens of thousands of words covering multiple complex issues spanning the entire economy and every region of the country. It is unquestionably too broad in scope for much of its recommendations to find tangible expression in the real world. Many of its plans require highly complex and extensive regulatory and bureaucratic oversight, which in turn requires state capacity that is simply not attainable.

Overwhelmingly we find its proposals economically detrimental and distortive of the market's efficient allocative function. In this regard there is effectively no regard in the NDP for second and third and fourth round effects of policies, meaning the law of unintended consequences will run rife if even just a few of the proposals are actually implemented.

While there are a number of useful ideas, many of them are difficult to implement. Good plans that are easily implementable are few and far between and tend to be relatively weak in substance and conceivable impact. It is also true that many of the good proposals are 'no-brainers' with broad acceptance – implementation that is key, which the NDP is weak on.

The most alarming aspects of the NDP that sit in the 'Bad-Likely' and 'Ugly-Likely' categories make for sobering assessment. Monetary policy that remains too focused on easy money conditions than on fostering savings and capital accumulation, and by extension implicit rand policy that ensures a 'race to debase' with global peers. This ensures, contrary to the intentions of its architects, a low savings-high consumption economy that hollows out its manufacturing base and does not progress productively.

Further, the heavy focus on incentivised youth employment is trying to plug a socio-political hole by putting the caboose before the steam engine. Apart from the tremendous distortions and perverse incentives this will create, and at the margin the displacement of older employees with far greater financial responsibilities, it is merely a reshuffling of the deck, allocating scarce resources in the form of subsidies which necessarily pulls resources away from other market endeavours. There is no logical reason to think that youth employment schemes will have a sustained positive impact on overall national employment levels, and they risk badly damaging the efficiency of job markets.

An additional concern is the NDP's penchant for industry winner-picking through planned state-led development finance channels, subsidies and special protectionism. Where with one hand it giveth, the state must with the other taketh away. By extension, it envisages price controls (although details on where and how are scant), and appropriating greater power to enforce desired market competition and pricing practice outcomes.

It is also discouraging to see good plans undone by bad or ugly ones. This is particularly true in respect of labour market policy. A potentially more open approach to skills immigration, easier hiring and firing rules for probationary staff, and the simplification of pre-dismissal procedures for employers are countered by added distortions such as the youth wage subsidy, stricter envisaged enforcement of sectoral minimum wages, and possibly onerous regulations to be placed on labour broking, a sector that has cushioned the harmful effects of rigid labour regulations.

For all the fanfare the NDP has received about being much friendlier toward labour market liberalisation, the balance of evidence suggests that at best the proposals are ambiguous for the labour market. Certainly there seems scant willingness to engage in deeper reform of the market's colossal rigidities that place South Africa as one of the world's most restrictive, business unfriendly labour market jurisdictions. Proposals for productivity-linked wage increases are refreshing, but still flawed, hard to practically implement, and politically fraught.

Outlook & Strategy

The overwhelming majority of the NDP is a set of ideas and wish-lists that are unlikely, or only somewhat likely to be implemented. The document is too broad, unfocussed, and vague to itself be a catalyst for profound action in economic policy. One must also understand that institutional inertia in a big state such as South Africa's is an enormous obstacle to practical reform. In respect of good ideas and proposals this is sobering; in respect of bad and ugly ideas and proposals this is somewhat encouraging. Sometimes no action is best when it comes to the bull in a china shop that is a large, nationalistic state.

There is a reason certain structural impediments to reform have hitherto been such stubborn and persistent roadblocks, and it's clear that the NDP does not substantively address these. The ANC has a deeply socialist, statist core, and in the NDP this visibly saddles it with a seemingly incurable blind spot to genuine, liberal reform.

Add to this core the fact that the ANC faces in 2014 the prospect of the most hotly contested election in the 20 year history of democratic South Africa, and it is certain that the party is going to pander to its traditional support bases in an even more vigorously leftist way than it has ever done. Moreover, the post-election landscape will probably see the ANC's local and even provincial ruling clout diminished, maybe a lot, which would further neuter practical application of most NDP policy.

It is our core assessment therefore that the NDP is de facto a very weak catalyst for constructive policy reform. It effectively does little more than entrench the status quo, paying lip service to very narrow liberal reform while entrenching counterproductive macroeconomic management, and misguided microeconomic management. It is a large ideological cover for big-government welfarism and the so-called 'Developmental State.'

This is important. There is no concession whatsoever in the NDP that the tax burden on the private sector is too high and that the state is in chronic overreach, even while the real effective total tax burden for households and corporations, and state economic control, is outrageously high. In fact, a reading of the NDP shows that it implicitly guarantees that the real tax burden of the productive sectors will rise inexorably in the years ahead. The demonstrably sclerotic, un-dynamic public sector will continue to bleed resources out of the private sector where these funds will mostly be channelled unproductively.

The implication for capital managers is paradoxical. The outlook for returns is at once both sobering and strangely upbeat. It has been found that large, listed and politically and economically connected companies in crony capitalist countries tend show a very high return on equity. The reasons are not too mysterious. Truly free-market, highly competitive economies whittle margins of firms down to the bone and profits are less concentrated.

The NDP is South Africa's crony capitalism rallying cry. At almost every turn the door is open to lobbyists from a myriad of industries to seek special protection for their special interests. The NDP claims to want to break South Africa's heavy industry concentration, but practically it runs the risk of reinforcing such concentration. This plays into the hands of the large, liquid, listed conglomerates that can leverage scale, access big and affordable credit, win state-led business, receive special support, influence legislation in their favour, and lobby for easy money.

Of course the NDP is also sowing the seeds of volatility and systemic fragility. It neither prevents a hollowing out of South Africa's productive base nor retards overconsumption. In the long game, an NDP path erodes investment value. This is the sobering message, and the warning, for the capital manager.

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Research:
Russell Lamberti, Chief Strategist
Rob Price, Market Analyst

Editor:
Russell Lamberti, Chief Strategist

ETM Analytics (Pty) Ltd:
Tel: +27 11 875 8556
Web: www.etmanalytics.com
Physical Address:
Block 5, Killarney
Fourways Golf Park, Roos Street
Fourways, Johannesburg
South Africa, 2055