GROWTH, EMPLOYMENT AND REDISTRIBUTION
A MACROECONOMIC STRATEGY

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1. INTRODUCTION

1.1 A Long-run vision

As South Africa moves toward the next century, we seek:

- a competitive fast-growing economy which creates sufficient jobs for all workseekers;
- a redistribution of income and opportunities in favour of the poor;
- a society in which sound health, education and other services are available to all; and
- an environment in which homes are secure and places of work are productive.

A strategy for rebuilding and restructuring the economy is set out in this document, in keeping with the goals set in the Reconstruction and Development Programme. In the context of this integrated economic strategy, we can successfully confront the related challenges of meeting basic needs, developing human resources, increasing participation in the democratic institutions of civil society and implementing the RDP in all its facets.

1.2 Recent Economic Developments

Against the background of a successful democratic transition, the stagnation that characterised the 1980s has come to an end. Considerable progress has since been made in:

- securing a return to a long-term growth trend in excess of population growth;
- reducing the budget deficit, reforming the tax system and reprioritising public expenditure;
- bringing down inflation and easing the balance of payments constraint;
- opening the economy to international competition and securing access to new markets;
- integrating the civil service and transforming public sector institutions; and
- establishing policy frameworks for delivery of social services.

Notwithstanding these achievements, it has become increasingly evident that job creation, which is a primary source of income redistribution, remains inadequate. It is widely recognised that the present growth trajectory of about 3 percent per annum:

- fails to reverse the unemployment crisis in the labour market;
- provides inadequate resources for the necessary expansion in social service delivery; and
- yields insufficient progress toward an equitable distribution of income and wealth.

Recent exchange rate developments reinforce these conclusions. In February 1996 a depreciation, which was largely a purchasing power parity correction, occurred. However, the subsequent movements in the foreign exchange market reflected more fundamental economic uncertainties. The depreciation presents both an opportunity and a threat. An uncoordinated response, embroiled in conflict, will cause further crisis and contraction. Linked to an integrated economic strategy, on the other hand, it provides a springboard for enhanced economic activity.

1.3 Points of Departure

Sustained growth on a higher plane requires a transformation towards a competitive outward-oriented economy.

The strategy developed below attains a growth rate of 6 percent per annum and job creation of 400 000 per annum by the year 2000, concentrating capacity building on meeting the demands of international competitiveness. Several inter-related developments are called for:

- accelerated growth of non-gold exports;
- a brisk expansion in private sector capital formation;
- an acceleration in public sector investment;
- an improvement in the employment intensity of investment and output growth; and
- an increase in infrastructural development and service delivery making intensive use of labour-based techniques.

The expansion envisaged in the above aggregates is substantial and entails a major transformation in the environment and behaviour of both the private and the public sectors. This must include:

- a competitive platform for a powerful expansion by the tradable goods sector;
- a stable environment for confidence and a profitable surge in private investment;
- a restructured public sector to increase the efficiency of both capital expenditure and service delivery;
- new sectoral and regional emphases in industrial and infrastructural development;
- greater labour market flexibility; and
- enhanced human resource development.

Accompanying the macroeconomic strategy set out below, several appendices provide details and explanatory memoranda. Other coordinated policy programmes, such as the recently announced National Crime Prevention Strategy, complement this framework. Taken together, the Government's approach to development and growth builds a bridge between the present constrained environment and sustainable expansion within an increasingly competitive international context.

1.4 An Integrated Strategy

The core elements of the integrated strategy are:

- a renewed focus on budget reform to strengthen the redistributive thrust of expenditure;
- a faster fiscal deficit reduction programme to contain debt service obligations, counter inflation and free resources for investment;
- an exchange rate policy to keep the real effective rate stable at a competitive level;
- consistent monetary policy to prevent a resurgence of inflation;
- a further step in the gradual relaxation of exchange controls;
- a reduction in tariffs to contain input prices and facilitate industrial restructuring, compensating partially for the exchange rate depreciation;
- tax incentives to stimulate new investment in competitive and labour absorbing projects;
- speeding up the restructuring of state assets to optimise investment resources;
- an expansionary infrastructure programme to address service deficiencies and backlogs;
- an appropriately structured flexibility within the collective bargaining system;
- a strengthened levy system to fund training on a scale commensurate with needs;
- an expansion of trade and investment flows in Southern Africa; and
- a commitment to the implementation of stable and coordinated policies.

It is Government's conviction that we have to mobilise all our energy in a new burst of economic activity. This will need to break current constraints and catapult the economy to the higher levels of growth, development and employment needed to provide a better life for all South Africans. We are confident that our social partners will join us in the combined efforts needed to achieve this goal.

2. CRITICAL CONSIDERATIONS: A FRAMEWORK FOR GROWTH

2.1 Present economic trends

The trends established over the past two years suggest that the economy is on track for continued, if somewhat slower, growth in exports and investment. Policies are in place to bring the fiscal deficit down steadily and to keep inflation in check. Under these circumstances, detailed simulations, based on diverse econometric models, reach a common conclusion: growth of at best 3 percent per annum can be expected on average over the next few years. Although this represents a considerable improvement on past performance, it is not a development path which meets the goals South Africans have set for themselves.

Firstly, in the context of 3 percent growth, and without significant improvements in labour absorption coefficients, it is doubtful whether annual job creation much in excess of 100 000 would be possible over the next five years. The unemployment rate would then rise by some 5 percent to about 37 percent in 2000. This estimate takes into account about 20 000 additional jobs created per annum in response to various employment-intensive public expenditure programmes such as land reform, low-cost housing, community water and municipal infrastructure.

Secondly, the scope for increased public spending on social services would be severely limited. Medium term fiscal projections incorporating a 3 percent growth scenario, a gradual deficit reduction, the recent public sector wage settlement, and severe cuts (15 percent) in real spending in several government functions, indicate that there would be sufficient resources to increase real aggregate spending on social and community services by at most 3 percent per annum, which is barely above the population growth rate. The additional funding available would not cover 15 percent of current medium term departmental expansion plans.

Thirdly, the balance of payments remains a structural barrier to accelerated growth. The economy is dependent on imported capital and intermediate goods and, as in the past, the cyclical upswing brings a deterioration in the current account. Whereas this constraint has been eased through capital inflows since the elections in 1994, the lack of sustained long term capital inflows has made the balance of payments and the economy too reliant on short term reversible flows and consequently high interest rates.

The recent exchange rate instability presents a further complication. There is a danger of a further capital outflow and a balance of payments crisis. In this scenario growth would be abruptly curtailed and structural adjustment under terms set by international agencies would be unavoidable. Leaving aside this risk, growth forecasts have already been revised downwards by most professional analysts. It is recognised that the burden of the adjustment in the short term will fall on monetary policy and that an economic contraction to reduce import demand is likely.

What options are open to government? An expansionary fiscal strategy could be considered. However, even under the most favourable circumstances, this would only give a short term boost to growth since it would reproduce the historical pattern of cyclical growth and decline. Increased growth above 3 percent would be choked off by a rising current account deficit, upward pressure on real wages and curtailment of investment plans. Higher fiscal deficits would also lead to higher inflation and higher interest rates, exacerbating the burden of interest payments on the fiscus. More importantly, in the present climate of instability a fiscal expansion would precipitate a balance of payments crisis. Without attention to more deep-rooted reforms, there is no possibility of sustainable accelerated growth.

Base Scenario Projections: 1996-2000						
Model characteristics	**1996**	**1997**	**1998**	**1999**	**2000**	**Average**
Fiscal deficit (% of GDP) (fiscal year)	5,1	4,5	4,0	3,5	3,0	4,0
Real government consumption (% of GDP)	19,8	19,5	19,1	18,6	18,1	19,0
Average tariff (% of imports)	10,0	9,0	9,0	8,0	8,0	8,8
Average real wage growth, private sector	0,8	1,5	1,7	1,3	1,4	1,4
Average real wage growth, government sector	4,8	0,4	0,4	0,3	0,0	1,2
Real effective exchange rate (% change)	-9,6	0,7	0,1	0,1	0,0	-1,8
Real bank rate	7,0	6,0	5,0	4,5	3,7	5,2
Real government investment growth	2,6	2,4	2,2	2,2	2,4	2,4
Real parastatal investment growth	3,0	2,5	2,5	2,5	3,0	2,7
Real private investment growth	6,3	4,2	4,4	5,8	7,1	5,6
Real non-gold export growth	9,6	7,5	6,4	5,5	5,3	6,9
Results	**1996**	**1997**	**1998**	**1999**	**2000**	**Average**
GDP growth	3,3	2,0	2,5	2,9	3,3	2,8
Inflation (CPI)	8,4	10,9	9,6	9,3	9,1	9,5
Employment growth (non-agricultural formal)	0,9	1,0	0,8	0,9	1,3	1,0
New jobs per year ('000s)	97	101	84	103	134	104
Current account deficit (% of GDP)	1,8	1,3	1,1	1,1	1,6	1,4
Real export growth, manufacturing	12,5	10,4	7,5	6,6	5,4	8,5
Gross private savings (% of GDP)	20,5	20,7	20,8	20,8	20,6	20,7
Government dissavings (% of GDP)	3,1	2,6	2,0	1,4	0,9	2,0

2.2 Elements of a Medium Term Strategy

An integrated medium term strategy is presented below which provides a broad bridge between the present constrained economic environment and an improved growth and employment performance in the period up to 2000, while strengthening the competitive capacity of the economy in the long term. The core elements of this integrated package are:

- an acceleration of the fiscal reform process, including a tighter short term fiscal stance to counter inflation, an appropriate medium-term deficit target to eliminate government dissaving, further revision of the tax structure, and a range of budgetary restructuring initiatives to sharpen the redistributive thrust of expenditure and contain costs;
- a further step in the gradual relaxation of exchange controls, the maintenance of monetary policies consistent with continued inflation reduction and exchange rate management to stabilise the real effective exchange rate at a competitive level;
- a consolidation of trade and industrial policy reforms, incorporating a further lowering of tariffs to compensate for the real depreciation, the introduction of tax incentives for a fixed period to stimulate investment, a campaign to boost small and medium firm development, a strengthening of competition policy and the development of industrial cluster support programmes, amongst other initiatives;
- the implementation of the public sector asset restructuring programme, including guidelines for the governance, regulation and financing of public corporations, and leading off with the sale of

non-strategic assets and the creation of public-private partnerships in transport and telecommunications;

- an expansionary public infrastructure investment programme to provide for more adequate and efficient economic infrastructure services in support of industrial and regional development and to address major backlogs in the provision of municipal and rural services;
- a structured flexibility within the collective bargaining system to support a competitive and more labour-intensive growth path, including greater sensitivity in wage determination to varying capital intensity, skills, regional circumstances and firm size; reduced minimum wage schedules for young trainees, reducing indirect wage costs; and increasing the incentives for more shifts, job sharing and greater employment flexibility; and
- a social agreement to facilitate wage and price moderation, underpin accelerated investment and employment and enhance public service delivery.

The measures outlined above are mutually supportive and constitute an integrated strategy to enhance economic growth and employment creation. It is Government's conviction that they will establish a stable and competitive environment for significantly improved export and investment growth.

2.3 Accelerated Growth

The recent depreciation of the rand represents one element in the improved competitiveness which the economy must achieve for higher growth to be sustained. Although higher import prices will impact negatively on importing firms in the short term, the advantages of a lower rand for producers of traded goods for both export and domestic markets represent a crucial window of opportunity over the next few years. It is Government's intention to utilise this opportunity to the fullest. This requires several further adjustments to avoid erosion of the improved trading outlook by macroeconomic imbalances.

In brief, government consumption expenditure should be cut back, private and public sector wage increases kept in check, tariff reform accelerated to compensate for the depreciation and domestic savings performance improved. These measures will counteract the inflationary impact of the exchange rate adjustment, permit fiscal deficit targets to be reached, establish a climate for continued investor confidence and facilitate the financing of both private sector investment and accelerated development expenditure.

Drawing on several models of the South African economy, the effects of an integrated economic reform strategy on growth and employment prospects have been tested. Results, bearing in mind the inevitable uncertainties of economic projections, are as follows.

The package will establish a stable platform for a powerful expansionary thrust, with non-gold export growth rising to 10 percent per annum over the period. Against the background of this expansion and supported by the proposed investment incentives, as well as the integrity of the package as a whole, private sector investment can be expected to continue its strong upward momentum, averaging some 12 percent growth between 1995 and 2000. Accelerating public sector investment growth, driven by public corporations and local authorities, programmed to reach growth rates of up to 10 percent per annum by 1998, will complement the demand stimulus of stronger non-gold exports and private investment performance. In the aggregate, these developments are expected to provide sufficient impetus for GDP growth to climb to the targeted 6 percent by the year 2000.

The danger of an increase in the rate of inflation, reinforced by a wage-price spiral, is a constant threat to the expansion anticipated by the strategy. To contain inflationary pressures requires concerted implementation of complementary stabilisation measures: accelerated tariff liberalisation, sharper deficit reduction, tight monetary policy, and above all, productivity linked wage increases. Taken together, these measures would hold the inflation rate below the 10 percent barrier throughout the period, and preserve the competitive advantage of the depreciation.

As a result of the reduction in government consumption expenditure relative to GDP, and the reversal of government dissaving, gross domestic saving is expected to rise from 18 percent to 22 percent of GDP. This represents an important basis for the sustainability of the long-run growth path. Gross domestic investment is expected to increase from 20 percent to nearly 26 percent of GDP in the year 2000. This requires capital inflows equivalent to almost 4 percent of GDP. The integrity of this growth strategy is therefore dependent on maintaining a favourable investment climate, in order to attract foreign investment.

Employment projections are sensitive to assumptions regarding real wage growth, easier access to formal job opportunities and accelerated programmes of small business and small farmer support. A favourable employment response to accelerating growth, reinforced by effective public sector programmes, would see job creation rise to 400 000 per annum by the year 2000. The unemployment rate would then begin to show a visible decline.

There are, in sum, several inter-related aspects of the growth strategy. Departing from the past depreciation of the exchange rate which provides a competitive advantage to exporters, the expected economic expansion will be strengthened if the real value of the currency remains at a stable level. Inflation will not erode competitiveness for the following reasons:

- deficit reduction releases the pressure of the fiscus on the capital market; it also facilitates the accelerated flow of domestic resources into industrial investment and contributes to the overall financial stability of the economy; and
- accelerated tariff reduction compensates for the depreciation and provides an additional buffer against inflation; it also holds imported input prices down and preserves the momentum of restructuring at the firm level.

In addition to maintaining financial stability, job creation is enhanced:

- supply-side industrial measures which replace the general export incentive scheme contribute to industrial competitiveness, investment and job creation;
- public investment to upgrade sustainable economic and municipal infrastructure crowds in private investment and boosts short-term economic performance, while laying the infrastructural foundations for long-term productivity growth;
- wage moderation increases labour demand while lowering inflationary pressures; and
- greater flexibility in the labour market regulatory framework facilitates employment creation while extending basic rights to a broader pool of the work force.

Responsible monetary policies anchor the competitiveness and stability of the economy in regard to both the domestic value of the rand and its foreign purchasing power and encourage domestic saving and investment. Finally, the fiscal containment in the package reduces the burden placed on monetary policy.

The policy package is also consistent with long-run sustainable growth on a higher plane:

- tax reforms are aimed at international competitiveness and minimising the distorting effects of taxation on economic behaviour, while preserving the fundamental progressiveness of the overall tax structure;

- trade and industrial policies aim to promote an outward-oriented industrial economy, integrated into the regional and global environment and fully responsive to market trends and opportunities;
- public sector reforms, comprising asset restructuring, budgetary reprioritisation and improved service delivery, underpin social and infrastructural development in both urban and rural areas and contribute to the redistribution of opportunities and income; and
- employment and training policies enhance the growth potential of industry, extend job opportunities to the unemployed and contribute over time to the redistribution of income.

While recognising that policy-making must remain sensitive to changing circumstances, there is an urgent need to establish firm foundations for this approach to growth and employment creation in the South African economy. The Government's proposals for such a framework are set out in more detail below.

Integrated Scenario Projections: 1996-2000

Model characteristics	**1996**	**1997**	**1998**	**1999**	**2000**	**Average**
Fiscal deficit (% of GDP) (fiscal year)	5,1	4,0	3,5	3,0	3,0	3,7
Real government consumption (% of GDP)	19,9	19,5	19,0	18,5	18,1	19,0
Average tariff (% of imports)	10,0	8,0	7,0	7,0	6,0	7,6
Average real wage growth, private sector	-0,5	1,0	1,0	1,0	1,0	0,8
Average real wage growth, government sector	4,4	0,7	0,4	0,8	0,4	1,3
Real effective exchange rate (% change)	-8,5	-0,3	0,0	0,0	0,0	-1,8
Real bank rate	7,0	5,0	4,0	3,0	3,0	4,4
Real government investment growth	3,4	2,7	5,4	7,5	16,7	7,1
Real parastatal investment growth	3,0	5,0	10,0	10,0	10,0	7,6
Real private sector investment growth	9,3	9,1	9,3	13,9	17,0	11,7
Real non-gold export growth	9,1	8,0	7,0	7,8	10,2	8,4
Additional foreign direct investment (US$ m)	155	365	504	716	804	509
Results	**1996**	**1997**	**1998**	**1999**	**2000**	**Average**
GDP growth	3,5	2,9	3,8	4,9	6,1	4,2
Inflation (CPI)	8,0	9,7	8,1	7,7	7,6	8,2
Employment growth (non-agricultural formal)	1,3	3,0	2,7	3,5	4,3	2,9
New jobs per year ('000s)	126	252	246	320	409	270
Current account deficit (% of GDP)	2,2	2,0	2,2	2,5	3,1	2,4
Real export growth, manufacturing	10,3	12,2	8,3	10,5	12,8	10,8
Gross private savings (% of GDP)	20,5	21,0	21,2	21,5	21,9	21,2
Government dissavings (% of GDP)	3,1	2,3	1,7	0,7	0,6	1,9

3. FISCAL POLICY

3.1 Recent fiscal trends

In response to the unsustainable fiscal situation that had developed by 1992/93, when the overall deficit reached 7,9 percent of GDP, fiscal policy has been informed by the following goals:

- to cut the overall budget deficit and the level of government dissaving;

- to avoid permanent increases in the overall tax burden;
- to reduce consumption expenditure by general government relative to GDP; and
- to strengthen the general government contribution to gross domestic fixed investment.

Although government dissaving has not yet been eliminated, progress has been made in this respect. The cash-flow adjusted exchequer deficit was reduced to an estimated 5,4 percent in 1995/96. Consolidated general government tax revenue has increased from 25,6 percent to 26,8 percent of GDP between 1992/93 and 1994/95, but still somewhat below the 1989/90 level of 27,1 percent. At the same time, significant shifts in the allocation of expenditure have been effected in accordance with reconstruction and development priorities.

3.2 A tighter fiscal stance

To remove the domestic savings constraint and benefit from the expansionary impact of the stronger investment and export performance which is envisaged in this strategy, a tighter fiscal policy is necessary. In this way, inflationary pressures will be kept in check and domestic resources will be released for financing capital formation. A lowering of the fiscal deficit target from 4,5 percent of GDP to 4,0 percent in the 1997/98 fiscal year is therefore proposed. Two further reductions of 0,5 percent of GDP in each of the subsequent years would bring the deficit to a satisfactory long term target of 3,0 percent of GDP in fiscal 1999/00. This, together with the envisaged strengthening of government investment spending, would eliminate government dissaving, currently at 2,5 percent of GDP.

In order to achieve the new fiscal targets in the 1997/98 budget, the Minister of Finance has initiated a thorough audit of government expenditure, including RDP allocations, to identify those areas in which budgetary cuts can be made without detracting from the priorities and commitments of the Government.

3.3 Public service restructuring

The process of administrative restructuring of the public service provided for in the Constitution gathered pace in 1995. With the first phase of the process involving the integration of the public service at national and provincial levels nearing completion, attention is shifting to the longer-term issue of creating a more cost-effective service.

A major step was taken in early 1996 with the devolution to line departments of all career related personnel functions. The restructured Public Service Commission will retain a research and monitoring role, while the Department of Public Service and Administration will be responsible for broad human resource policy, conditions of service and labour relations.

Careful management of the overall government wage bill is central to the fiscal strategy. In implementing the three-year public service salary adjustment and right-sizing programme, affordability considerations, maintenance of public services and macroeconomic consistency are paramount. Agreement has been reached on the principles of broad-banding and occupational classification.

In order to effect a right-sizing of certain parts of the public service, a voluntary severance package has been introduced. This will be implemented with considerable circumspection in order to limit both the resulting loss of skilled personnel and associated costs to the fiscus.

Successful implementation of the agreement would lead to a real increase in the government wage bill of approximately 2 percent per annum over the next five years. This, together with strict containment of spending on other goods and services and current transfers, implies a roughly constant level of real recurrent government expenditure and a reduction of 3 percentage points in this aggregate relative to GDP by the year 2000. This would allow an increase in discretionary RDP-related spending on projects of a capital nature of about 8 percent per year, compared with little more than 2 percent per year in real terms in the absence of accelerated growth. This represents substantial room for manoeuvre in the developmental dimensions of the budget.

3.4 Budgetary reform

The budget is the primary vehicle through which access to social services is assured. Nearly half of all government spending is devoted to education, health, welfare, housing and related services. Strengthening of the redistributive thrust of these expenditures remains a fundamental objective of economic policy. Reprioritisation within the health and education budgets, a municipal infrastructure programme, restructuring of the welfare system, land reform and a review of training and small business support policies are amongst the initiatives which aim to address the claims of the poor to a fair package of basic needs. These adjustments are being accompanied by the elimination or scaling down of activities which cannot be provided to all or which could be undertaken effectively by the private sector.

Government recognises the importance of a longer-term fiscal planning framework alongside the annual budgetary process. A multi-year fiscal model has recently been developed which will be updated annually to provide greater clarity regarding public expenditure trends and priorities. It is envisaged that a draft medium-term expenditure model will be available to assist in the preparation of the next budget.

Several budgetary reforms are presently under consideration, including the earlier presentation of budgets to Parliament, the possibility of a switch to an accrual accounting system, a revised basis for reporting assets and liabilities, a restructuring of the accountability of the various departments and a transformation of the structure of inter-governmental financial relations.

3.5 Revenue issues

International experience confirms that it is on the expenditure side that the fiscus is most effectively able to contribute to redistribution. It is nonetheless important that the incidence of taxation should remain progressive, while at the same time impacting across a broad base so as to avoid excessive rates. Several further steps in the overhaul of the tax structure including the rewriting of the Income Tax Act will be undertaken. A new dispensation for the taxation of retirement funds, higher rates of excise on tobacco products and improved tax collection will lead to increased revenue on the current income base. This will be partially offset by adjustments to the personal income tax structure with a view to correcting for fiscal drag and reducing the distorting impact of excessive rates of tax.

Recognising the importance of effective tax administration, the new SA Revenue Service has embarked on the upgrading of its revenue and customs and excise offices, including personnel training and modernisation of information systems. This will, in due course, contribute to improved collections and greater fairness of the tax system.

The improvement in economic growth, together with improved tax administration, should lead to a strong increase in tax revenue relative to GDP. This will create considerable scope to effect further reductions in the rates of personal and corporate taxation, while maintaining a ratio of tax to GDP of about 25 percent.

In addition, the Department of Finance is reviewing the existing arrangements for the financing of government debt and the management of outstanding debt. The outcome of this process will be the establishment of a fully-fledged Debt Management Office leading to savings on the interest bill in the medium-term. A first step has been taken in this regard with the review of cash management within the public sector.

4 MONETARY AND EXCHANGE RATE POLICY

4.1 Monetary policy and inflation

The main objective of monetary policy will continue to be the maintenance of financial stability and the reduction of the inflation rate. Positive real interest rates are a minimum condition for overall financial stability. Low inflation is an important requirement for higher economic growth, the creation of employment opportunities and a more equitable distribution of income.

Inflation reduction has been facilitated by other developments. Trade liberalisation has contributed significantly to the containment of domestic prices, while more moderate wage-setting and improved industrial relations have also played a role in holding cost increases in check.

Monetary policy will also aim to maintain real interest rates at positive levels to encourage savings and investment. However current levels of interest rates are bound to have negative effects on economic growth. High interest rates hamper the development of the small business sector which is dependent on bank credit and put home ownership out of reach of more people. It is not possible, however, for the Reserve Bank alone to lower interest rates if conditions are not appropriate. Lowering the Bank rate could lead to higher credit demand, higher inflation, and as inflationary expectations take hold, higher long term interest rates. In addition, such a policy would lead to declining capital inflows, capital flight and higher imports, which all add up to a balance of payments crisis.

What is required are the conditions for lower (but positive) real interest rates. The strategy outlined in this document aims to bring about these conditions. These include sustained lower rates of inflation; a reduction in government dissaving which will reduce pressures on the capital markets; and the attraction of long term capital inflows, particularly direct investment flows, which will make the capital account less dependent on short term capital inflows which are attracted by high real interest rates; the commitment to a stable real exchange rate and higher growth will also reduce the risk premium facing foreign capital inflows and this would then allow for lower real interest rates.

By combating domestic inflation the monetary authorities will also contribute to stabilising the external value of the rand. Over the long run, low domestic inflation is a prerequisite for greater stability in the average value of the rand against a basket of currencies of major trading partners.

4.2 Exchange rate policy

Since mid-February the foreign exchange market has been subjected to intense speculative pressure, causing a substantial real depreciation of the rand. This development to some extent reflects that the rand had become somewhat overvalued in response to a temporary capital surge, but was also the result of increased concerns regarding policy trends and economic prospects. The movements of the exchange rate signal some uncertainty in financial markets and call for careful policy responses.

In order to maintain the current competitive advantage created by the depreciation of the rand in the first four months of 1996, the objective is to keep the real effective exchange rate of the rand at a competitive level. Although short-term fluctuations may at times be unavoidable, monetary and other policy measures will be geared towards the attainment of long-term real effective exchange rate stability. This will provide the stable environment needed for a concerted expansion of export industries.

Although the exchange rate is primarily market determined, its value at any moment cannot be considered a true reflection of the underlying value of the rand while exchange controls exist. The

Government has stated repeatedly that it is committed to phasing out controls in a prudent manner. In line with this commitment, the financial rand was abolished in 1995.

In view of the many inherent disadvantages of exchange control, such as the distortion of the price mechanism, the problems encountered in the application of monetary policy, the detrimental effects on inward foreign investment and the large administrative costs, all remaining exchange controls will be dismantled as soon as circumstances are favourable. The gradual approach to the abolition of exchange control is designed to allow the economy to adjust more smoothly to the removal of controls that have been in place for a considerable period.

The current round of exchange control liberalisation is designed as a balanced package which will enhance economic activity. The new measures include the following:

- Policies directed specifically at foreign investors include the relaxation of access to domestic credit. Although a measure of capitalisation from foreign funding is still required, the new regulations will allow for local borrowing capability to be enhanced by doubling the current borrowing limit. In terms of the new regulations, a wholly non-resident owned entity is able to borrow 100 percent of shareholders' equity.

- Institutional investors, namely insurance companies, pension funds and unit trusts, may currently obtain foreign assets by way of asset swaps for up to 5 percent of their total assets, subject to the stipulations of the legal framework within which they operate. This limit will now be increased to 10 percent.

- Institutional investors will also be allowed foreign currency transfers during 1996 of up to 3 percent of the net inflow of funds during the 1995 calendar year. Approval for such transfers will be subject to the overall limit of 10 percent set out above.

- Corporate entities who operate in the export field and also import goods from abroad, will be allowed to offset the cost of imports against the proceeds of exports, provided the set-off takes place within a period of 30 days.

- Adjustments to existing exchange control limits and measures designed to effect administrative exchange reform are included in the package.

5 TRADE, INDUSTRIAL AND SMALL ENTERPRISE POLICIES

5.1 Recent policy developments

The unreliability of raw material exports in the 1980s persuaded policy-makers that the central thrust of trade and industrial policy had to be the pursuit of employment creating international competitiveness. This entails a shift away from demand-side interventions, such as tariffs and subsidies, which raised prices received by producers, to supply-side measures designed to lower unit costs and expedite progress up the value chain.

While long-term survival strategies have had to be developed for certain sensitive sectors, general progress towards an outward-oriented stance is reflected in a number of achievements:

- replacement of former quantitative restrictions with tariffs;
- rationalisation of the tariff structure by almost halving the number of tariff lines;
- abolition of import surcharges, completed in October 1995;

- phasing down of tariffs, begun in 1995, by on average one-third over five years; and
- phasing out of the general export incentive scheme, to be completed by the end of 1997.

Another critical policy thrust has been the expansion of market access through preferential trade arrangements with industrial countries and pursuit of regional economic integration. In the area of concessionary industrial finance, several schemes have been introduced by the Industrial Development Corporation (IDC) and the Regional Industrial Development Programme (RIDP) has been expanded to include a simplified scheme applicable to smaller enterprises.

The impact of trade restructuring is not easily measured. Many firms have been under intense pressure, compounded by the real appreciation of the exchange rate in 1995. Nevertheless, exports and employment in manufacturing have increased, taking advantage of the international cyclical upswing. The most positive sign, also evident in sectors sensitive to the lowering of trade barriers, has been the significant increase in new foreign and domestic fixed investment in the manufacturing sector.

5.2 Compensating tariff reductions

Based on the foundations which have been laid over the past two years, trade and industrial policies will seek to enhance the competitive capacity and employment absorption of manufacturing, alongside continued promotion of tourism as an export sector and appropriate growth-oriented policies in other sectors.

As a result of the real depreciation, a compensating lowering of tariffs is desirable, within the context of an orderly implementation of agreed tariff realignments. The mid-1996 real effective exchange rate is some 12 percent below the January value, which should permit a significant acceleration of the tariff reductions to which South Africa is committed in terms of World Trade Organisation agreements. These reforms will be structured to lower prices for industrial inputs and low-income households, to avoid job losses in sensitive sectors, and to remove price distortions in domestic markets. The overall effect will be to minimise the negative effects of the depreciation on consumer prices and maximise the positive effects on industrial production. It will also encourage additional investment and job creation in competitive sectors, including priority industries.

5.3 Industrial support measures

Industrial innovation support programmes will be enhanced. This includes the incentive provided in terms of the Special Programme for Industrial Innovation, which has had some positive impact on domestic innovation, as well as the matching grants under the Technology and Human Resources For Industry Programme, designed to strengthen the relationship between educational institutions and industry. The technology transfer programme of the Department of Trade and Industry, which serves to police and advise on licensing and royalty agreements, will be converted into an agency dedicated to facilitating access by firms to needed technologies.

Several programmes have already been introduced to promote productivity, such as the IDC's Multi Shift and World Player schemes. A major investigation is now being undertaken under the auspices of NEDLAC to develop a programme to encourage the adoption of best practice work organisation.

To stimulate competitive and labour absorbing industrial development, an accelerated depreciation scheme will be introduced for all new investments in manufacturing. The tax allowance programme will apply to qualifying plant and equipment which is acquired and brought into use for the first time during the period 1 July 1996 to 31 September 1999. In addition, the current Regional Industrial Development Programme will be replaced by a tax holiday available to completely new pre-approved projects initiated during a window of three years, beginning in the last quarter of 1996. Approved projects will get tax exemptions for a period of time determined by three factors: regional location, job creation, and priority industries. The tax holiday, of a maximum of six years, will come into effect as soon as the project becomes liable for tax, and may not be used beyond the tenth year after the initial investment is undertaken.

Closely related are the twelve industrial priority industry investigations as well as the regional industrial locations studies. These major initiatives are intended to identify mechanisms to enhance the competitiveness of selected industrial sub-sectors. While the clusters may be eligible for the proposed tax holiday, specific interventions will also be considered where necessary. These studies involve constant interaction with both owners and workers.

The review of competition policy which is presently under way will be reflected in strengthened new legislation. The main objectives of competition policy are to encourage competition among firms, protect consumers and downstream firms from restrictive practices, and to open up new opportunities for investment.

Ongoing efforts to improve the access of South African firms to foreign markets will concentrate on exploring special arrangements with major trading blocs and continuing participation in the multilateral World Trade Organisation process, as well as other initiatives such as the Cairns Group. A further key element of the strategy is the gradual integration of the economies of Southern Africa through the trade and investment protocols of SADC.

The reform of the system of industrial finance is well advanced. The IDC will continue to provide loan finance, equity, and credit guarantee facilities, and will adapt its programmes to satisfy new needs. The institutional capacity to support small business is also largely in place. The various regional development corporations, however, still need to be integrated more fully into the new investment promotion effort. Other support institutions such as the Board of Tariffs and Trade, the Competition Board, the South African Bureau of Standards, and the National Productivity Institute are also receiving attention to meet the challenge of global competition and employment creation.

5.4 Small and medium-sized enterprise development

The promotion of small, medium and micro enterprises (SMMEs) is a key element in the Government's strategy for employment creation and income generation. Due to obstacles of the past, the SMME sector is severely under-developed. A major effort will be made to operationalise and implement the policies outlined in the White Paper on small business promotion. The relevant legislation is under consideration and various programmes and institutions have been established to give effect to the strategy, including:

- the Small Business Centre attached to the Department of Trade and Industry;
- Ntsika Enterprise Promotion Agency to provide non-financial assistance;
- Khula Enterprise Finance Limited for wholesale loans;
- Khula Credit Guarantee Limited for loan guarantees;
- a pre-shipment export finance guarantee facility to expand access to working capital; and
- the Competitiveness Fund for consultancy advice on technology and marketing.

The Simplified Regional Industrial Development programme will be continued in a modified form as a grant programme tailored to the needs of small and medium-sized firms.

6 SOCIAL AND SECTORAL POLICIES

The past two years have witnessed an energetic review of social and sectoral policies in keeping with RDP objectives. Public policies which affect women have come under scrutiny, programmes of action for children have been developed and a strategy for the disabled has been put forward. Land reform, agricultural development, protection of the environment, programmes in arts and culture, technology enhancement, crime prevention, national defence, urban infrastructure and housing, water and sanitation and primary health services are just some of the areas in which detailed analysis and extensive public discussion have led to major policy revision.

This focus of this document is the overall macroeconomic environment. Social and sectoral policy development cannot be outlined comprehensively here, but a few key linkages between growth, redistribution and new policy directions are highlighted below.

6.1 Education

Progress in education shows up consistently in comparative studies as a key determinant of long-run economic performance and income redistribution. Sustained improvements in the quality of public schooling available to the poor and greater equity in the flow of students through secondary and tertiary education are central to the Government's approach. Despite near-universal enrolment in primary education, only some 40 per cent of children currently complete secondary schooling successfully. Inadequate pass rates in science and mathematics are cause for concern.

Reform initiatives under way, aimed at qualitative improvements in the educational system, include restructuring and decentralising of school governance and management, overhauling school curricula, establishing a national qualifications framework, addressing the culture of learning in schools, building and refurbishment of classrooms, rationalising and renewing teacher education, enhancing educational administration, and expanding further education. Suitable norms, together with quality enhancing rewards, are under review. With spending on education at nearly 7 percent of GDP there is a need to contain expenditure through reductions in subsidisation of the more expensive parts of the system and greater private sector involvement in higher education. This will concentrate public resources on enhancing the educational opportunities of historically disadvantaged communities.

6.2 Health and welfare services

The systematic restructuring of health services, with a strong emphasis on universal and free access to comprehensive primary care, represents a clear commitment to improving the health conditions of the poor. Within the public health system resources are shifting from tertiary services in metropolitan areas towards overcoming the inadequacies of hospitals and clinics in rural areas and townships.

Partnerships between the state and voluntary organisations centred on developmental welfare services will focus attention on the vulnerable, especially in under-serviced areas, while freeing resources from expensive institutionally-based services. By far the greater part of welfare spending is devoted to social grants, which assist some 3 million elderly or disabled persons or needy children. These transfers play a vital role in poverty alleviation, especially in rural areas. Affordable alternatives to support families and children in need are being investigated.

6.3 Housing, land reform and infrastructure

The implementation of the housing and infrastructure programmes has been slow, with continuous refinements to the policy framework. Since late 1995, an acceleration in housing delivery has been evident. A continuation of this trend will see the provision of housing and related services on a substantial scale. This will have several beneficial distributional effects. Construction is largely labour intensive and provides jobs and training, while improvements in housing and infrastructure enhance the productivity of labour and the quality of urban life.

Improved water and sanitation is typically the first priority of rural communities. Some 500 projects costing R1,5 billion have been committed. Rapid progress with the supply of potable water to the 12 million people without adequate access will be a major contribution to poverty relief. These initiatives have been complemented by new policies regarding sanitation systems.

The land reform programme, combining asset redistribution with enhancement of tenure has an important role in improving the long-term prospects for employment and income generation in the rural economy. Progress has been made to finalising procedures for the rapid release of land and the introduction of a settlement grant. Complementary initiatives include emergent farmer support programmes. As these gain momentum, emphasis will shift to marketing support, appropriate technological interventions and streamlined extension services. Over time, agricultural development associated with land reform will play a key role in improving the distribution of income and economic activity.

7 PUBLIC INVESTMENT AND ASSET RESTRUCTURING

7.1 Investment in infrastructure

Investment in social and economic infrastructure will play an important role in increasing the productivity of labour and business and thus the achievement of higher growth rates. The National Infrastructure Investment Report indicated that South Africa currently faces a backlog in infrastructure of at least R170 billion, and that innovative financing strategies and careful prioritisation will be needed if sufficient progress is to be made.

This strategy envisages a substantial acceleration in government investment spending, together with improved maintenance and operation of public assets. Higher growth is clearly critical in this regard, as is a thorough restructuring of the responsibilities of relevant public corporations, development finance institutions and local and provincial authorities.

Public infrastructure needs include domestic and industrial grid electricity and other energy projects; domestic, industrial and agricultural water supplies; sanitation, wastewater and stormwater; roads, railways, airports, harbours and pipelines; telecommunications and postal services; urban housing-related infrastructure; rural development; and hospitals, clinics and educational facilities. Progress in all these areas adds to the quality of life in communities, while simultaneously building productive economic capacity. The provision of basic household infrastructure, in particular, is a relatively low cost and effective form of public intervention in favour of the poor and consistent with the reduction of income inequalities.

Four basic sources of finance are potentially available: fiscal transfers, concessional finance from multilateral institutions and other international sources, development finance channeled through development finance institutions, and loans raised on commercial terms. The nature of projects, including cost recovery potential and the risks involved, determine the appropriate funding mix.

Recognising the limited capacity of the fiscus, Government is committed to the application of public-private sector partnerships based on cost recovery pricing where this can practically and fairly be effected.

7.2 Corporate governance and asset restructuring

Government has prepared a protocol on corporate governance of all state entities, which includes the following elements:

- formulation of dividend policies, together with clear indications of the objectives and performance appraisal norms for all agencies;
- a revised policy regarding government guarantees;
- appropriate regulatory policies, aimed at ensuring that pricing policies are fair and fully recover operating costs, while also promoting competition or protecting consumers against monopolistic practices; and
- a programme of asset restructuring with respect to the ownership and governance of state entities.

Within the context of government policy and in accordance with the procedures agreed in the National Framework Agreement with organised labour, the process of restructuring state assets is now proceeding. Detailed sectoral consultation, planning and preparation are taking place. The telecommunications sector plans to complete negotiations by September 1996 with a view to finding a strategic equity partner for Telkom and addressing other restructuring issues in this sector. A similar process will unfold in the course of this financial year in other sectors, including minerals and energy, agriculture, forestry and water, leisure and transport. Six significant regional radio stations have been put out to tender for outright sale.

The nature of restructuring, as outlined in the framework agreement, may involve the total sale of the asset, a partial sale to strategic equity partners or the sale of the asset with government retaining a strategic interest. Work is in progress to address the outstanding issues on the restructuring of the remaining state enterprises. Specific policy issues and further elaboration will be dealt with by the responsible Ministers.

8 EMPLOYMENT, WAGES AND TRAINING

8.1 Present trends in the labour market

South Africa’s labour market is extremely fragmented. Employment growth in the formal sector of the economy has stagnated over the past decade and private sector employment has fallen. It is apparent that unregulated low wage employment has increased significantly since the 1970s, now accounting for an estimated one-third of all job opportunities. In addition, a large pool of unemployed men and women, who earn no income or derive sporadic earnings from informal self-employment, make up about a third of the potential labour force.

Irregular, sub-contracted, out-sourced or part-time employment on semi-formal contractual terms is becoming the preferred source of labour for many employers. This is resulting in a growing gap between the wages and benefits in the regulated and unregulated parts of the labour market. Where regulations raise the costs of job creation, employers turn to unregulated forms of employment.

The major development in the primary segment of the labour market over the past two years has been the new Labour Relations Act. This has four key features. It establishes a single industrial relations system for all employees, promotes collective bargaining by providing certain organisational rights for trade unions, establishes new procedures and institutions for resolution of disputes and provides for workplace forums to facilitate a shift from conflictual employer-employee relations towards joint problem-solving with employee participation. The reduced incidence of industrial unrest in recent years attests to the considerable progress made in this regard.

Present trends in the economy lead to employment growth of 100 000 to 130 000 per year, with unemployment rising to 37 percent by the year 2000 and an increased casualisation of the labour force. On this trajectory, poorly rewarded employment in survival activities grows nearly twice as fast as formal sector job opportunities. Weakening employment opportunities for the poor imply that income distribution is likely to worsen, impacting particularly severely on the rural poor, young work-seekers and those without education or skills.

8.2 Labour market reform challenges

The fragmented character of the South African labour market, conflictual labour relations and poor productivity have tended to undermine competitiveness and hence investment. Appropriate balances have to be struck in the labour market in respect of job creation, between regions and sectors and between maintaining existing jobs, protecting those in employment, and creating opportunities for new entrants. In a context of approximately 33 percent unemployment, the challenges are immense.

Government has a responsibility for ensuring that labour market rules are fair and that there are appropriate mechanisms for dispute resolution. Government is also an important employer and the main investor in human resource development in the economy. It influences, through its industrial and other policies, the sectoral growth trend of the economy. Accelerated job creation and improved productivity are direct or indirect goals of a wide range of government policies and programmes, some of which are noted elsewhere in this document.

In this integrated macroeconomic strategy, employment growth accelerates, reaching 409 000 jobs annually in the year 2000 and reversing the upward tendency in the unemployment rate. Over the next five years some 833 000 more jobs are created in the higher growth strategy than would otherwise be possible.

In this strategy there are two broad thrusts relating to labour market policy. The first is the pursuit of regulated flexibility aimed in part at extending the protection and stability afforded by this regulatory framework to an increased numbers of workers. The second is the promotion of continued productivity improvements aimed at bolstering the development of skills across the full spectrum of the workforce in both the formal and non-formal sectors. These points of departure are the basis of Government's labour market policies and will be further elaborated in response to the report of the Comprehensive Labour Market Commission.

The Government will pursue a policy of regulated flexibility in managing the labour market. This entails the regulation of the labour market in a manner that allows for flexible collective bargaining structures, variable application of employment standards and voice regulation.

The appropriate determination of wages is a critical component of the medium term macroeconomic strategy. It is a precondition for sustaining the competitive advantage of the currency depreciation, and it is the key to ensuring the maintenance of industrial competitiveness in the longer term. A sudden upsurge in nominal wage demands would either unleash a wage-price spiral that would soon erode any semblance of a real depreciation or force a severe tightening of monetary policy leading to higher interest rates and economic contraction. It is therefore important that wage and salary increases do not exceed average productivity growth.

Analysis of employment prospects indicates that accelerated job creation can be achieved in broadly three ways. Growth itself could account for about one-third of the increased job creation envisaged under an integrated strategy, some of which would be in informal or other unregulated activities. Government programmes can add a further quarter of the new jobs, mainly through accelerated labour-based infrastructural development and maintenance of public works in urban and rural areas. Some 30 percent of the increased employment, however, and more than half of the new formal private sector opportunities, will have to arise from institutional reforms in the labour market, employment enhancing policy shifts and private sector wage moderation. Stronger growth of more labour-intensive components of industry, facilitated by shifts in industrial policy, is vital. It is these reforms that are needed to bring about the increased responsiveness of labour demand to output growth, and are the essential ingredients of a sustainable, labour-absorbing growth path.

Furthermore, the general direction of economic policy is towards greater openness and competitiveness. The economy will thus become increasingly subject to global forces. The challenge then facing labour market policy is to promote dynamic efficiency, skill enhancement and the expansion of reasonably remunerated employment – while at the same time supporting a labour-intensive growth path which generates jobs for the unemployed, many of whom are unskilled and have never had previous employment. The Government intends to promote collective bargaining while simultaneously pursuing an appropriate balance between productivity enhancement and employment creation.

8.3 A more flexible labour market

Government recognises that industrial agreements which reach across diverse firms, sectors or regions should be sufficiently flexible to avoid job losses and should be extended to non-parties only when this can reasonably be assured. The Minister of Labour’s discretion to extend or not to extend agreements should be broadened to permit the Minister to bring labour market considerations into play. Wage agreements must be sensitive to regional labour market conditions, the diversity of skills levels in firms of varying size, location or capital intensity and the need to foster training opportunities for new entrants to the labour market.

Other labour market policies should be negotiated by labour, business and government constituencies at appropriate levels in terms of a national framework. Reforms consistent with accelerated access of new entrants to employment and training opportunities might include less onerous minimum wage schedules for young trainees, lower indirect wage costs (through a more cost-effective provision of retirement, medical, unemployment and accident benefits), increased incentives for more shifts, job sharing and other measures to support greater employment flexibility. Variations on norms set through collective bargaining must be an integral aspect of a system of regulated flexibility building on the safeguarding of employment standards and worker’s rights implicit in existing policies.

The determination of minimum wages remains, in certain sectors of the economy, to protect the vulnerable and the weak. The approach will not be to set one minimum wage across the whole economy but to determine appropriate standards by sector and area. The determination of these minimum wages must follow proper hearings, investigations and consideration of relevant economic conditions, the potential for employment creation and the alleviation of poverty.

The Department of Labour will encourage, through the mechanisms provided in the Labour Relations, Act, the rationalisation of collective bargaining arrangements to meet the challenges of the new economic environment while recognising the diversity of the domestic labour market.

8.4 Enhancing productivity

Government also recognises that job creation and improved living standards require a substantially increased commitment by the business sector to industrial investment and productivity-enhancing training. Accelerated investment is a principal thrust of this strategy, and must be promoted across a broad sectoral front, including export-oriented manufacturing and agro-industrial projects, tourism-related industries and improved transport and communication services, and with a particular focus on smaller firms. In many sectors, there is scope for both increased employment and training of the unskilled and improved productivity at higher skill levels.

International indicators show that South African investment in human resource development is inadequate. An enhancement of the level and effectiveness of training across all employment sectors is central to this growth strategy. Training underpins productivity improvement by enhancing human capability – across all labour market segments and product lines – to exploit technological flexibility and add value on competitive terms. Regulated flexibility of the labour market, discussed above, must permit employees to increase their productivity over time. Improved management training, modernisation of work practices, appropriate job grading and better utilisation of working time are also key aspects of enhanced efficiency.

A refocusing of curricula and the organisation of formal learning is currently in progress under the auspices of the education authorities. Coordination of standards and quality assurance will be the responsibility of the newly established South African Qualifications Authority.

The Department of Labour has embarked on the development of a new human resource development strategy, in partnership with all major stakeholders, which is planned to culminate in new legislation in 1997. Central to this strategy is a new financing mechanism and governance framework which aims to increase the aggregate level of effective investment in training. Towards this end the government is investigating the feasibility of introducing a mandatory levy on payroll. The matter is currently under negotiation with the social partners represented in NEDLAC. The strategy includes the following:

- establishment of a tripartite national coordinating council, responsible for giving strategic direction to human resource development and for building an energetic coherent national system;
- restructuring of industry training boards to facilitate best practice training, under industrial management;
- strengthening of the levy-based industrial training financing mechanism;
- appropriately focused funding of training for emergent enterprises and the unemployed;
- an overhaul of the guidance, training, placement and labour market information services of the Department; and
- development of an information and planning capacity to support the national training strategy.

In addition, there will be deliberate campaigns to enrich human resource development programmes within government departments and agencies, aimed at effective service delivery. Management training initiatives are already underway in several key departments.

Government recognises that it has an important role to play in financing education and training activities aimed at the unemployed and the small business sector and in enhancing the quality of technical and vocational education and training. Sustained improvements in the quality of general schooling are also largely the responsibility of the fiscus. Industrial training must remain mainly the responsibility of employers. Government seeks to facilitate the development of financing mechanisms that will enjoy broad support from both the business sector and organised labour.

9 TOWARDS A NATIONAL SOCIAL AGREEMENT

A strong tradition of collective bargaining characterises the South African industrial and social environment. Sectoral and regional agreements are likely to contribute to structuring future growth and development. There is an important role also for a broad national agreement, to create an environment for rapid growth, a brisk investment trend and accelerated delivery of public services based on equity and universal access. The challenge facing the government and its social partners is to ensure that a national agreement underpins rapid growth, job creation, and development.

The immediate objective of the agreement would be to ensure that the recent depreciation of the currency does not translate into a vicious circle of wage and price increases leading to instability in the financial markets and a decline in competitive advantage. For this reason it is important that wage and salary increases do not rise more than productivity growth. It is equally important that price restraint should be maintained, facilitated through an effective competition policy and continued trade liberalisation.

In the longer term, a broad social agreement might address a wider range of issues related to economic restructuring, income distribution and social policies. Orderly collective bargaining between organised labour and employers must remain the foundation of industrial relations.

For its part, the government commits itself to an accelerated increase in its contribution to social and community living standards. Most of the policy frameworks and institutional systems are now in place to ensure the following:

- the delivery of housing and related services;
- steady improvement in the quality of education;
- universal access to primary health care;
- access to land and agricultural support for emergent farmers;
- electrification of all urban areas and an increasing number of rural communities;
- reliable water supplies and appropriate sanitation infrastructure;
- improved postal and telecommunications services; and
- a broad social security net, comprising social grants and targeted welfare services.

Equally important, the government will provide a combination of real exchange rate management and tax incentives aimed at encouraging private sector investment. For workers, this will give certainty that wage moderation will contribute towards growth, job creation and social benefits. For the business sector, this strategy creates an environment in which investments can be made confidently, competitiveness is enhanced and public policies are clear.

10 POLICY COORDINATION

As a result of political stability and sound policies, economic growth has revived, bringing to an end the stagnation that characterised the 1980s. Our strategy will build firmly on the foundations established since 1994, leading to accelerated growth, increased job creation and a significantly improved distribution of income and opportunities.

The higher growth path depends in part on attracting foreign direct investment, but also requires a higher domestic saving effort. Greater industrial competitiveness, a tighter fiscal stance, moderation of wage increases, accelerated public investment, efficient service delivery and a major expansion of private investment are integral aspects of the strategy. An exchange rate policy consistent with improved international competitiveness, responsible monetary policies and targeted industrial incentives characterise the new policy environment.

A strong export performance underpins the macroeconomic sustainability of the growth path. Private sector employment creation is reinforced by small business promotion, land reform and emergent farmer support, greater labour market flexibility and labour-based public sector infrastructural development projects.

Accelerated economic growth associated with stronger employment creation is the key to continued progress towards an equitable distribution of income and improved standards of living for all. Employment creation provides a powerful vehicle for redistribution, supported by government housing, water supply and sanitation, health, education, welfare and social security services.

Success in a more open and complex economic environment requires consistent and integrated policies. Timing, sequencing, and packaging of reforms are important, as is the clear commitment of social partners to an agreed policy framework. World competitiveness nowadays depends as much on comparative advantage in the public policy arena as it relies on technology, human resources and physical capital.

Government has a clear policy coordination role. There are trade-offs amongst policy options and competing claims by different interest groups which need to be nationally resolved. Whilst institutions have been developed to aid this process, and Government is committed to an open and consultative approach, the ultimate responsibilities for a credible and coherent policy framework lies with Government. As a first step in this process, Government calls for a clear commitment by both business and labour to the broad principles set out in this document.

Within Government, especially in the fields of monetary, fiscal, trade, industrial and labour policies, there is also a critical need for coordination. Inconsistent approaches in any of these areas have the potential to destabilise the credibility of the overall macroeconomic framework. Effective coordination of economic policy at Cabinet level has accordingly been given the highest priority by Government, together with supporting arrangements within key administrations and between Government, the Reserve Bank, the business sector, organised labour and other key constituencies. The strategy set out in this document seeks to remove uncertainty, give clear direction to the economic course on which South Africa is headed, and invite Government's social partners to join in the building of a competitive fast-growing economy.

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