

Tackling poverty and creating wealth: How the IFP views the economic priorities

For almost a decade, Inkatha was a lonely voice in support of a number of fundamental economic principles and policies with which almost every other political organisation in South Africa was reluctant to identify. But the substance of current economic discussion in South Africa strongly vindicates the Inkatha Freedom Party. Here, in essence, is the IFP's current thinking on key economic strategies...

The essential role of market forces

A central strategy for fairer wealth distribution

As long ago as 1981, Inkatha invoked the criticism of many both within and outside South Africa for its stand in strongly promoting a market-related system as the route most likely to address poverty and wealth creation in the country. This criticism was hardly surprising, considering that the ANC was at the time pushing hard for a Marxist-type economy and in Western Europe a good number of countries were still experimenting with quasi-socialist economic models.

In addition to Inkatha's recognition of the essential role of market forces in South Africa's economic development, Inkatha in the early 1980's is also on record as having advocated the following:

- The pivotal role of the business sector in the economy
- The need for all to work together in partnership to achieve a common economic end
- The primary need to establish a momentum of black economic upward mobility
- The necessity for mass job creation through expanded industrialisation
- The vital requirement of investment (especially foreign investment) and trade flows with which to achieve economic growth
- The need to avoid creating unrealisable expectations amongst the country's economically disadvantaged people.

These were among the continuously promoted positions at odds with the state socialism characteristic of both the South African government and many of its opponents.

Although the growing convergence towards these positions that has taken place is gratifying, one fundamental tenet is largely being missed. The concern is that there is too much emphasis upon presenting detailed economic models as a desired end results, with insufficient regard to preceding processes. No

matter how plausibly saleable or noble these models might be, it is crucial to recognise that the road of economic development ahead is going to be a formidable road in terms of complexity, unpredictability and complication.

Growth path

Therefore, while the IFP has long singled out an enterprise-driven and market-based economic system with a welfare dimension, as a desirable ideal, it has always hastened to stress that the fundamental issue at stake is the question of how we get there – what growth path should be established upon which we can pursue a progressive process which is directed towards the attainment of the ideal. The concern thus begins with existing realities and then moves to an incremental-type developmental approach with which to transform our economy where necessary, phasing out old policy and phasing in new policy.

A free market-type economy is in itself not an absolute solution – it is but a highly desirable long-term goal. Any attempt to implement such a system on inappropriate foundations is at best academic idealism and at worst political expediency, adding to the already problematic difficulties associated with unrealistic, and possibly explosive expectations.

The crucial reality to take into account before setting off down a road towards a new economic dispensation is that of this country's limited resource base and the impossible challenge for this resource base to meet both short term expectations, as they exist AND the strategic requirements for long-term prosperity even given a fair rate of economic growth.

Yet dangerously exaggerated short-term expectations exist at levels that if not realised, could destabilise the post-apartheid order. These expectations (especially as they exist amongst the youth) cannot be met – and therefore have to be tempered. IFP leaders appear to at present be the only political leaders with the courage to tell the disadvantaged masses that the quality of their lives is most likely to significantly improve in

Major thrust to expand South Africa's industrial base

the long-term only if available resources are in the main used to expand the country's economic base.

This message is only likely to be effective in defusing expectations if given in unison by all political leaders. By so doing we can buy vital time and strategic space in which to invest the "greater effort" into the creation of a vastly broadened economic base that involves as a large a percentage of the country's disadvantaged people as possible in the economy – as participant income earners and as consumers. This is the IFP's central strategy for more equitable wealth distribution.

The IFP by virtue of its own circumstances, is more aware than most of the appalling and often tragic inequities in our greater society – of poverty and denial – hence its determination to resist the temptation of short-term thinking in addressing this predicament. Considerably more must be done, and considerably more can be done than what is at present being done to ease the suffering of the disadvantaged – but without forsaking the only initiatives we have with which to mobilise the country's wealth creating potential.

Premature

It is premature to offer economic growth strategies that assume the imminent availability of significant loan and investment capital, especially that from foreign sources.

The IFP accepts the wisdom derived from other countries' experiences, as well as the perceptions of those on the ground, in whose name parties profess to be formulating economic policy.

On the one hand, the lesson of the Japan success story is that in the post-war era, it concentrated on launching its economy by way of innovative financing of labour-absorbing industrial development, and left housing, residential infra-structure, and many other

social services to look after themselves until the economy became strong enough to begin incrementally accepting responsibility for them.

On the other hand, empirical research into needs perceived by the disadvantaged as critical can be encapsulated within one Siyanda squatter's challenging statement: "This new concern by many people to see us Blacks in better houses is wonderful, but, once inside these houses we will be just as hungry and desperate as before. Couldn't that money be used to make jobs for us – then we could try and work our way up from that opportunity."

These examples are suggestive of both positive and negative points. The former encourages the distribution of wealth by making the recipients participants in the economy as income earners, which in turn generates further economic activity by making these earners greater consumers.

The negative factor is that which warns of the effects of pure benevolence. Ken Owen, when still editor of *Business Day*, made this point:

"Welfare, like charity, satisfies only the giver, never the receiver... There is a debilitating effect on people who, whilst in the poverty trap, simply get given the essentials for living... it serves on them evidence of their lowly self-worth and self-ability and in total, creates a culture of dependency."

The future economy should not be designed to carry hundreds of thousands of passengers in the form of the unemployed. It should be planned to give the unemployed job opportunities. It should encourage the belief by workers that their standard of living will be a function of their work efforts. The IFP appreciates that to establish a German or Japanese work ethic in South Africa would be very difficult, but whatever progress is achieved in that direction would be in the national economic interest.

An integrated approach to economic policy

The IFP economic philosophy is one which aims to combine sustainable economic growth, mass job creation, wealth distribution dynamics, and essential humanitarian services in an integrated approach to what it hopes would ultimately deliver a stable and full social market-type economy.

Economic foundations will have to be laid that seek to eliminate as many of the gross distortions in the existing economy as possible and which will restructure the economy to allow market forces to enhance its potential.

To give credibility to these aims, two

fundamental questions must be answered, and these are questions that all aspirant governing parties should be able to offer substantive answers to:

1. How do you plan to achieve your aims in practical terms? and;
2. How would you attempt to fund your plans?

Achievement of aims

For the IFP, the desired levels of economic growth that will produce the wealth that is required will essentially come both from (i)

**Increased
competition
seen as
economic
stimulant**

**Social
contract
between
government
and business**

increased economic earnings and (ii) from economic savings.

1. Economic earnings

The sought after earnings will come from:

- Enhancing the performances of what we already have (i.e. the existent business sector)
- By establishing a vastly broadened base from which to pursue new earning opportunities (i.e. widespread industrial development).

Much must be done to increase the private sector's contribution to GDP. As the IFP states in its policy documentation, there must be a consultative partnership between business and government in the "social contract" sense which offers the balance between self-interest and the common social good. A future IFP government will aim for a win-win relationship with the business sector in which:

- (a) While business will be encouraged in its pursuit of profit, via the fiscus this will contribute to the national interest in funding infra-structural needs, services and an adequate welfare system.
- (b) Business will, if competitive, benefit from less government intervention but by the same token will struggle to survive if it is not competitive.
- (c) Business will be discouraged from practices which eliminate competition. It will be requested to co-operate in reversing (or at least arresting) certain negative trends by facilitating the growth of the small business sector – including the informal business sector. Increased competition by way of increased numbers of competitors is an essential economic stimulant (and a creator of jobs). But because competition is not a self-perpetuating process an IFP government would take steps to guard against restrictive practices.

This social contract cannot be seen as a cosy business/government club. It is imperative that planning and decision-making includes the representation of labour in the formation of a tripartite agreement.

Secondly, in pursuit of increased economic earnings the IFP would concentrate its major thrust in expanding the country's industrial base – especially in the area of manufacture. Here areas of existent competitive advantage will be sought out and exploited.

Export-led growth will be the theme of as much of the proposed industrial development as possible – especially that which leads to the exportation of processed products with high added-value from beneficiation.

Given the present weakening of foreign resistance to trade relations with South Africa, opportunities are likely to be building up ahead of such planning to develop South Africa's export potential – even given the probability of a strengthening Rand.

Regarding the equation which tries to accommodate the strategies of industrial expansion, export led growth and job creation, there is the need for strategic market planning. This is to get around the problem of the need for capital intensive, high-tech type production necessary to be competitive in many foreign markets while at the same time not forsaking the need for mass job creation through labour intensive production.

This IFP emphasis on improved wealth distribution through job creation via extensive manufacturing expansion includes a keen awareness of the substantial benefits to be gained from service industry growth. These, with the resultant multiplier effects, will provide South Africa its employment opportunities.

2. Economic savings

Besides a more streamlined and efficient state bureaucracy, it is essentially savings to be made from competitive import substitution which will contribute towards increased domestic wealth. The possibility for job creation based on inward industrialisation is extensive. Incentives should where necessary be made available in the very initial stage of such ventures, but in line with third world experience this, and any other form of protectionism should not be maintained. Exposing domestic producers to foreign competition was the approach so successfully applied in countries such as Taiwan, South Korea, Singapore and Hong Kong.

Funding of aims

IFP intentions regarding industrial development will no doubt remain still-born unless investment, loans and venture capital is available. Given this, direct government facilitation of development should in the main be towards:

- Short term incentives where required to foster industrial entrepreneurship,
- Necessary infra-structural development especially in select localities for decentralisation, notwithstanding past failures, and:
- Perhaps most urgently, towards appropriate and relevant mass education to ensure the availability of an adequate labour supply. It is recognised that skills shortages and the ability to deal with them will have a critical bearing on the rate of industrial expansion. The IFP believes that this education must be prompted with the intention of converting the already employed and the would-be employed into a further national factor of competitive advantage – as was achieved by certain Pacific Rim NICs. Education priorities should be established as part of the National Strategy that produces the enterprise

driven, modern, Western-type, industrialised economy that IFP policy documentation refers to.

The availability of funding for industrial development however remains under question. Loans and investment whether domestic or foreign in source will of course depend on the two standards of "confidence" and "return". The IFP sees both of these as being at the beginning of their economic planning. That is, adding serious and extensive economic development to an already functional economy that is pragmatic in its enterprise driven approach, will prove to be enough to coax the existent investor and

loan markets, especially of foreign sources, to give substance to their interest. Accompanying issues are the lifting of sanctions, government savings, improved personal savings rates and greater availability of the funds which presently flow outside of the banking system.

A future government role in the banking system in order to facilitate planned development is a premature debate. Despite the part this played in the establishment of Japan's and other Pacific Rim countries' industrial emergence, it is questionable whether this would be desirable in the South African economic context.

Other areas of economic activity

Besides the natural spin-off of labour intensive service sector development that will accompany the manufacturing development, there are two other areas that should be briefly mentioned as being important to the jobs and wealth creation need:

Agriculture

Without addressing the moral issue of land ownership which is another debate, the IFP's prime concern is that land be used productively.

Three areas of particular significance are:

- State land;
- Underutilised or unused "White" farmland;
- Rural "Black" area land.

The key issues are land redistribution and utilisation. As far as economic growth is concerned, and given the fact that up to 50% of our black population is rural and largely

impoverished, the IFP stresses that a prime function of the state in the early phase is that of stimulating the transition from subsistence agriculture to that of entering the cash economy. That the encouragement of peasant agriculture – via land redistribution, training, finance, agricultural training, marketing assistance – will have a beneficial effect upon economic growth as well as in significantly improving the quality of life of the rural poor.

Tourism

There are authoritative studies that show that given political stability in South Africa and developmental action in the direction of tourism, that this industry could multiply its present size a number of times and become a major contributor to GDP and to foreign earnings. The IFP believes that the potential of this area should be enthusiastically exploited.

Unemployment the biggest threat

The biggest single threat to stability and peace in the post apartheid South Africa is probably going to be that of endemic unemployment.

There is the most dismal ignorance of unemployment trends in the Black communities and the associated growing poverty and social degradation. To not address this problem in the earliest stages of economic planning will prevent the attainment of any form of stable economic order.

As a final clarification on the role of government, the IFP, due to its belief in the potential of market forces, has a basic anti-

interventionist stance vis-a-vis the country's economy. However, the Party also believes that the early stage of essential economic corrections, liberalisations and stimulations can be decisively helped by strategic short-term interventionist measures.

Export incentives and import surcharges will be strategically phased out over a period.

In playing its role as promoter rather than protector of business, an IFP government would aim to maintain competition, fairness, freedom, stability (including monetary and price stability) and business confidence within the economic system.

**Job
opportunities
the key**