

# MERCATUS ON POLICY

## SOUTH AFRICA ELECTION: POLICY RECOMMENDATIONS FOR A NEW GOVERNMENT

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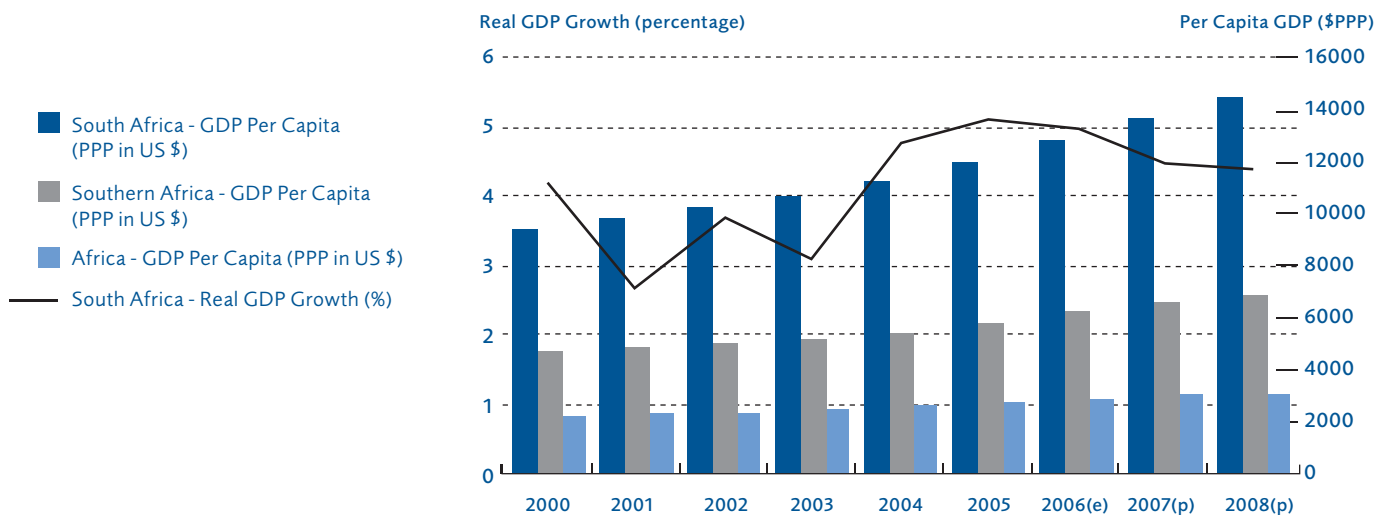
**A**S SOUTH AFRICA faces a new round of parliamentary elections this April, the country confronts a host of difficult political and economic challenges. How politicians face these challenges and how they manage the transition period are issues of concern for policy makers around the world. The new government would best serve the country's poor by improving entrepreneurial opportunities and establishing a rights-based foreign policy.

### POLITICAL AND ECONOMIC CLIMATE

SOUTH AFRICA HAS successfully transitioned from an oppressive, racist regime to a multi-ethnic democracy. Despite a recent economic downturn, South Africa remains the economic powerhouse of the African continent with recent growth rates between 3 and 5 percent per annum (see figure 1).

These strengths may ensure further economic growth and a deepening of the broadly participatory democratic practices of the past fourteen years. But there is reason for concern. Serious issues threaten the nation's continued development: an increasing gap between rich and poor,<sup>1</sup> unemployment rates over 20 percent,<sup>2</sup> poor educational outcomes,<sup>3</sup> and high crime rates.<sup>4</sup>

FIGURE 1: REAL GDP GROWTH AND PER CAPITA GDP (\$ PPP at current prices)



(Source: OECD, African Economic Outlook 2007, 487)

With Zimbabwe's continuing foreign policy crisis on its doorstep and with unrealized opportunities to improve economic integration and expand entrepreneurial opportunities for its citizens through trade,<sup>5</sup> South Africa also faces important challenges in the international arena.

## DOMESTIC AND INTERNATIONAL PROPOSALS

A NEW GOVERNMENT can make policy choices that lessen resentment among the poor, quell xenophobic violence, and increase investor confidence in the country's future. However, in order to spur job creation, improve educational outcomes, and increase security, a new government will need to adopt policies that expand entrepreneurial opportunities, make it easier to hire and fire workers, and limit predation effectively.

### *Creating Jobs*

To increase employment in South Africa, the new government must commit to helping *all* South Africans, not just union members and other groups recent governments have favored politically. Three policies in particular would support entrepreneurship and expand employment opportunities. The government should:

1. Create a two-tiered minimum wage structure.

Currently, South African youth find it very difficult to obtain formal sector employment.<sup>6</sup> A two-tiered structure would allow employers to pay young workers (e.g., ages 16 to 25) a lower wage than the government requires for other workers, giving employers an incentive to hire young workers and provide them with much-needed on-the-job training.

2. Allow for freedom of contracting in labor relations through the use of special exemption certificates.

Special exemption certificates would provide a temporary dispensation for *all* currently unemployed workers as well as employers from extensive labor law requirements, such as sectoral minimum wages, workplace benefits, and costly termination procedures. They would, in a sense, create individualized, moveable economic zones associated with particular workers, not particular areas.

3. Create special economic zones to encourage business development, job creation, and skills training.

Special economic zones—also called free-trade zones, export-processing zones, and free ports—are areas within a country where laws and regulations are modified in order to encourage business development. These areas generally allow for low-duty or duty-free import of materials needed to manufacture products created

within the zone, offer lower corporate tax rates, and impose fewer regulations on the labor market. China, India, and Mauritius have these zones, which serve as powerful engines for job creation.<sup>7</sup>

### *Encouraging Experimentation and Educational Entrepreneurship*

South African students do not receive the education they need to succeed in a globalized economy.<sup>8</sup> Thus, a new government needs to consider ways to improve the education sector. The following three policy options that would increase flexibility and responsiveness in the educational system:

1. Modify teacher certification requirements so that schools, particularly private schools, can hire based on competence.

The government should remove the requirement that all certified teachers have a Bachelors of Education degree and instead certify teachers based upon competence in a subject area (e.g., biology, math, or history).

2. Reduce administrative burdens for teachers in both public and private schools.

The Organization for Economic Co-operation and Development (OECD) reports that teachers are spending increasing amounts of time on administrative tasks and not on teaching.<sup>9</sup> A new government should identify ways to reduce the administrative burdens associated with overlapping jurisdiction and reporting requirements, thereby lowering the costs associated with providing education and increasing the time teachers spend in their classrooms.

3. Encourage the entry of more private-sector educational entrepreneurs by reducing the costs of opening and operating schools.

In combination with the introduction of a more flexible approach to curriculum development and teacher certification, private educators may be better able to respond in creative ways to student and parent desires. To encourage the entry of more private educational entrepreneurs into the education system, the government should exempt private schools from the requirement to comply with negotiated salary scale of unionized teachers and/or ease up on onerous administrative reporting requirements.<sup>10</sup>

### *Increasing Security for All South Africans*

A new South African government faces many challenges in terms of reducing crime and improving security. Citizens do not report crimes if they believe the police are either unin-

terested or unwilling to help.<sup>11</sup> Reducing crime rates and improving economic opportunity necessitates better “customer satisfaction” levels with the police force by increasing police visibility, reducing police response times, and encouraging more responsive interactions with community members.<sup>12</sup> The South African Police Service should raise its recruitment requirements while also improving communications and responsiveness to citizens. For example, forums (such as Community Policing Forums) that bring the community together with the local police might help improve crime reporting and might increase trust between the police and community members.

### Expanding African Economic Integration

Membership in multiple regional trade organizations limits the economic integration of African countries (see figure 2).<sup>13</sup> South Africa’s new government ought to move forward with integration strategies, such as common custom unions, instituting common markets, etc., in order to bring about further regional economic integration.<sup>14</sup>

### Promoting Good Governance

Good governance is a vital component of development, growth, and stability.<sup>15</sup> South Africa should:

1. Base its foreign policy strategy on the political ideals and principles embedded in the 1996 constitution rather than on the interest of a particular coalition.

By promoting the respect for the rule of law and rights-based jurisprudence on which the new democracy was founded, South Africa can take the lead in advocating for good governance rather than binding itself to the current strategy of acting on African solidarity.<sup>16</sup>

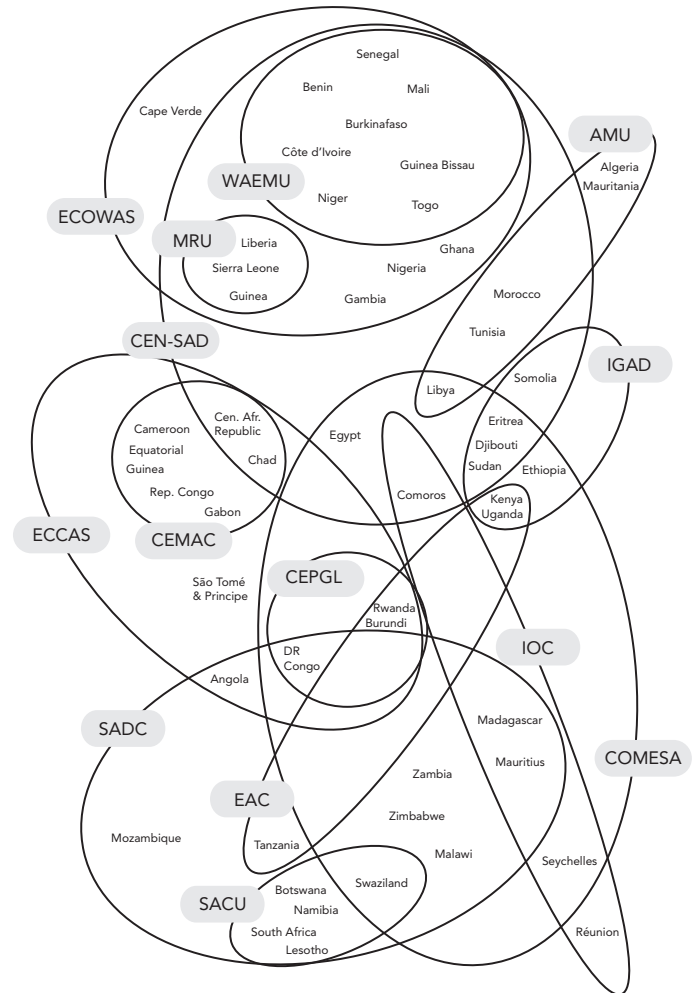
2. Work towards a more robust strategy for monitoring elections.

More and more countries are legitimizing their governments through elections, many of which are peaceful.<sup>17</sup> However, in countries that have limited experience with peaceful transitions, election fraud and violence often arise, especially when political parties engage in highly contested elections for control over allocation of government contracts, jobs, and government-controlled resources.<sup>18</sup> If South Africa took a lead role in election monitoring in Africa, it could help stabilize future transitions.

### Model Good Behavior

If South Africa successfully cleans its internal house and becomes the driving force for reform and hope, it can further extend its influence.<sup>19</sup> A new government should expand educational, cultural, and professional exchanges throughout the continent.

FIGURE 2: INCOMPATIBLE REGIONAL MEMBERSHIPS



Source: World Bank, “Regional Integration Assistance Strategy for Sub-Saharan Africa,” 2008, 12, <http://go.worldbank.org/89J65V2HB0>. This chart shows each state’s membership in different regional economic organizations, demonstrating the overlap and redundancy of certain organization and the inherent complexity of economic cooperation between different African states.

## CONCLUSION

THE CHALLENGES FACING a new government in South Africa are substantial, but so too is the nation’s potential. South Africa has been an African success story. With a new focus on expanding opportunity and good governance, it would continue to be one, playing an ever more meaningful role in the region, continent, and world.

## ENDNOTES

For more on South Africa, read *South Africa: Increasing Opportunities for the Poor, Country Brief 4 in the Mercatus Policy Series*.

1. Income inequality in South Africa has remained high and relatively static post-apartheid. However, these figures hide an interesting development. Black South Africans remain the poorest group of South Africans, however, intra-racial inequality has increased while inter-racial inequality seems to have declined. See Stephen Geld, “Inequality in South Africa: Nature, Causes, and Responses,” (forum paper, African Development

and Poverty Reduction: The Macro-Micro Linkage, 2004), [http://www.commerce.uct.ac.za/Research\\_Units/DPRU/DPRU-Conference2004/Papers/Gelb\\_Inequality\\_in\\_SouthAfrica.pdf](http://www.commerce.uct.ac.za/Research_Units/DPRU/DPRU-Conference2004/Papers/Gelb_Inequality_in_SouthAfrica.pdf).

2. Isobel Frye, *Poverty and Unemployment in South Africa*, National Labor and Economic Development Institute (January 2006), 6, <http://www.naledi.org.za/docs/Poverty%20and%20unemployment%20in%20South%20Africa%20Feb%202006.pdf>.
3. See Organisation for Economic Co-operation and Development, *Reviews of National Policies for Education, South Africa* (Paris: OECD Publishing, 2008), [http://www.fedusa.org.za/pdfdocs/Reviews%20of%20National%20Policies%20for%20Education\\_South%20Africa.pdf](http://www.fedusa.org.za/pdfdocs/Reviews%20of%20National%20Policies%20for%20Education_South%20Africa.pdf).
4. See Christopher Stone, "Crime, Justice and Growth in South Africa: Toward a Plausible Contribution from Criminal Justice to Economic Growth," (working paper no. 131, Center for International Development, Harvard University, 2006), 4, <http://www.cid.harvard.edu/cidwp/pdf/131.pdf>.
5. These unrealized opportunities result from problems created by membership in multiple regional trade organizations. The overlap in membership provides barriers to expand regional trade integration, thereby limiting the extent to which South African entrepreneurs can leverage economic opportunities on the continent. See figure 2 for a visual representation.
6. See Robert Pollin, Gerald Epstein, James Heintz, and Leonce Ndikumana, *An Employment-Targeted Economic Program for South Africa* (Amherst, MA: Political Economy Research Institute: 2006), 7, <http://www.undp-povertycentre.org/publications/reports/South%20Africa.pdf>.
7. Recently, Nobel Laureate Muhammad Yunus, founder of the Grameen Bank, argued that these zones are especially important for the world's poor. See Muhammad Yunus, "How Legal Steps Can Help to Pave the Way to Ending Poverty," *Human Rights* 35, no. 1 (Winter 2008), [http://www.abanet.org/irr/hr/winter08/yunus\\_winter08.html](http://www.abanet.org/irr/hr/winter08/yunus_winter08.html).
8. Researchers Edward Fiske and Helen Ladd, in their 2004 book on South African education reform, note that "South African learners perform abysmally on international comparisons." See Edward B. Fiske and Helen Ladd, *Elusive Equality: Educational Reform in Post-Apartheid South Africa* (Washington, DC: Brookings Institution Press, 2004), 233.
9. OECD, *Reviews of National Policies for Education: South Africa*, 23.
10. *Ibid.*, 304–5.
11. *Ibid.*, 74. This report also notes that small business in South Africa, just like small businesses in other countries, tend to underreport crimes. The report notes that research on this point suggests that "many small firms perceive reporting crimes to the police to be largely futile."
12. For a discussion of levels of satisfaction among small business owners with policing activities in South Africa, see *The Impact of Crime on Small Businesses in South Africa: A Study Commissioned by the South African Presidency* (Johannesburg: Small Business Project, July 2008), 77–78, <http://www.info.gov.za/view/DownloadFileAction?id=85235>.
13. Because these regional organizations were created piecemeal, nations committed to a multiplicity of organizations that have different requirements and barriers for entry. For instance, membership in two organizations might very well require that the same country be given free trade privileges under one agreement and maintain tariff barriers under the other.
14. Richard Gibb, "Rationalisation or Redundancy? Making Eastern and Southern Africa's Regional Trade Units Relevant," (working paper, The Brenthurst Foundation, Johannesburg, South Africa, 2006): 8, <http://www.thebrenthurstfoundation.org/>. See also Wolfe Braude, "SADC, COMESA, and the EAC: Conflicting Regional and Trade Agendas," Institute for Global Dialogue Occasional Paper no. 57, (Johannesburg: South Africa, 2008), [http://www.igd.org.za/index.php?option=com\\_remository&Itemid=69&func=selectcat&cat=2](http://www.igd.org.za/index.php?option=com_remository&Itemid=69&func=selectcat&cat=2).
15. Daniel Kaufmann and Aart Kraay, *Growth without Governance*, <http://siteresources.worldbank.org/INTWBIGOVANTCOR/Resources/growthgov.pdf>. See also Daniel Kaufmann, Aart Kraay, and Pablo Zoido-Lobaton, "Governance Matters: From Measurement to Action," *Finance and Development* 37, no. 2 (June 2000), <http://www.imf.org/external/pubs/ft/fandd/2000/06/kauf.htm>.
16. While human rights and human flourishing were seen as the cornerstone of the foreign policy under former President Nelson Mandela, foreign policy under former President Thabo Mbeki witnessed a greater tendency to coalesce and operate under the general rubric of African solidarity despite the issue at hand. This new emphasis brought about a greater focus on African issues and the encouragement of dialogue among the countries of the developing world in order to advance the African agenda. This emphasis has set up a false dichotomy between those who favor African solidarity and those who want to move forward with the global economic agenda.
17. See Frederico Marzo, "More Trees Have Fallen . . . But the Forest Is Still Growing: Recent Trends in African Politics," OECD Development Center Policy Insights no. 63 (Paris: OECD, 2008), <http://www.oecd.org/dataoecd/55/16/40583768.pdf>. See also, Mo Ibrahim Foundation, *Ibrahim Index of African Governance* (London: Mo Ibrahim Foundation, 2008), <http://www.moibrahimfoundation.org/index-2008/>. Both reference a general trend in a positive direction.
18. Paul Collier and Jan Willem Gunning make a similar argument by stating that "by 1991 only 13 percent of the [African] population was living in states in which legislators had been chosen in contested multiparty elections, and only 10 percent in states in which the chief executive had been so chosen." Paul Collier and Jan Willem Gunning, "Explaining African Economic Performance," *Journal of Economic Literature* 37 (March 1999): 68.
19. See Joseph Nye, *Soft Power: The Means to Success in World Politics* (New York: Persus Books Group, 2004) wherein he describes how countries can influence international affairs through attraction rather than coercion.

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