

## **GOLDMAN SACHS REPORT CAN BE LETHAL FOR SOUTH AFRICA DUE TO UNEMPLOYMENT AND OTHER SALIENT ISSUES: UNPACKING THE REALITIES OF FISCAL BALANCES AND TRADE DEFICIT**

**Anis Mahomed Karodia (PhD)**

*Professor, Senior Faculty Member and Researcher at the Regent Business School, Durban, South Africa*

**Reshana Bharuth**

*Researcher and Administrator at the Regent Business School, Durban, South Africa*

**Ahmed Shaikh**

*Managing Director and Senior Lecturer at the Regent Business School, Durban, South Africa*

### **ABSTRACT**

This paper attempts to look at and discuss the government of South Africa's viewpoint or rather spin on fiscal balances in terms of budget forecast. On the other hand the Goldman Sachs report can end up being lethal to South Africa. It argues that the trade deficit of R19 billion is dangerously wide and that salaries are up, but spending is strained. There is evidence that after nearly 20 years of democracy that white South Africans have grown wealthier on an aggregate basis, whilst the number of South Africans living below the poverty line has been reduced by nine percent. The paper depicts and shows the advances made under democratic government, post 1994 and outlines the challenges that remain. The paper will also project on dogma and denial by the trade unions from transforming South African society and the economy. It argues that it is the crucial role of trade unions should and could play in the technological, social and political circumstances of the 21<sup>st</sup> risk the development of democracy and further marginalize the poor and stymie the emergence of the developmental state that it aspires to attain.

**Key Words:** Fiscal, Deficit, Trade, Unemployment, Corruption, Transforming, Exposure, Risk, Lethal, Aggregate Basis, Poverty Line

### **INTRODUCTION**

Hanekom (1987: 165) classifies the obligations and responsibilities of public functionaries in terms of either legality or morality, and whether the functionaries were elected or appointed to office. Legal obligations and responsibilities imply restrictive as well as punitive action, while moral obligations and responsibilities indicate restrictive action only. Moral obligations primarily assist functionaries in obtaining a clear picture of what is expected in terms of their individual conduct, relationships, with their colleagues and with the public, when executing their official duties." In this regard the functionaries within the polity and bureaucracy of South Africa have not understood and comprehended the all embracing reality of serving the public in terms of the legal and moral precepts of governance. This has led to the fiscal, budget and administrative crisis in South Africa and is exemplified by the following realities, as pointed out by the Business Times, (2013: 2)

- South Africa's business confidence index nudged down to 91.1 in October, 2013 from 91.4 in September with the business mood uncertain partly because of lingering work stoppages.

- Impala Platinum, the world's second largest platinum producer, reported a 17 percent decline in the first quarter output because an undisclosed global client is no longer sending it recycled material to process.
- South African paper maker Sappi reported a diluted headline loss, a share of 8 US cents (82 South African cents) for the quarter to end – September, 2013, from a profit of 12 US cents a year earlier following falling demand in its major markets.
- Growth in South Africa's manufacturing output unexpectedly fell 3.3 percent year on year in volume terms in September, 2013, the first contraction since March, 2013, after rising by 0.2 percent in August of 2013, according to Statistics South Africa.
- Retailer Woolworths Holdings, which has 59 stores in 11 African countries outside its home market, says that it plans to close its 3 stores in Nigeria because of high rental costs, duties and difficulties with its supply chain.

The above is only the tip of the iceberg and the situation is in reality drastic. The public official must adhere to the basic requirements of honesty, integrity, fairness and justice and, promote the general welfare of the public, implying the greatest good that must be promoted. The principles of democracy and procedural fairness must be adhered to, meaning officials should not act arbitrarily which is the case in South Africa over the last two decades of freedom and democracy. A government must rule in terms of the rule of law and this means according to Gildenhuis and Knipe (2007: 93 – 94) 'the absolute supremacy or predominance of regular law as opposed to arbitrary power. This means that: the constitution is the supreme law of the country and must therefore, guarantee the natural, political, economic and social rights of every citizen and that the constitution should be the ultimate authority and not the government. However, experience and observation reveals that these issues have been negated by the democratic government in the main over twenty years of democracy.

Over recent decades and South African democracy is no exception, according to DeLeon (2007: 103) "the level of citizen trust and support for government has been declining" and "ongoing governmental reform has washed over much of the developing world" (Kettl, 2000; Kickert, 1997; Pollitt and Bouckaert, 2000). The last decade in South Africa has been marked by a number of budget and accounting reforms, each with different aims. This has however not yielded the required results to create sustained delivery of services and has compromised the government in respect to its stated goal of creating a developmental state. Budgeting reforms are likely to continue in South Africa for the foreseeable future. However with rising corruption, political patronage and haphazard government there is still considerable unpredictability in the budget process and this must be the focus of work in respect of curbing spending and so on. To some extent a relatively high – growth strategy would make it easier to tackle the employment question and also generate a higher level of domestic saving. In South Africa at present aiming for too high a rate of growth, could create a number of serious problems, unless policy actions are consciously devised to forestall them or to alleviate their impact. The most important of these problems is that the relative distribution of incomes between rural and urban areas is likely to deteriorate even further; that extremely high rates of saving would be required out of additions to per capita incomes, and that there would be greater dependence on external capital and an increased burden of servicing foreign debt. This is the current reality in South Africa. It will most certainly impact negatively on the people of South Africa and, could have devastating consequences on the economy and upon development generally.

#### **GOVERNMENT SPIN ON FISCAL BALANCES AND THE BUDGET FORECAST**

The latest data on state income and spending shows that government revenue remained "elevated and expenditure sufficiently subdued" (Jammie, 2013: 17). The figures presented in the medium – term budget policy by the Finance Minister in October, 2013 confirms a relatively positive forecast that the

budget deficit, which is the gap between government spending and revenue, in the 2013 /2014 fiscal year would not exceed the budget forecast of 4.2 percent of gross domestic product (GDP). According to Jamine (2013) “it could be even better at 3.9 percent if the current revenue and spending trends continued.” The solid revenue growth recorded in the first six months of the fiscal year could be sustained. The disappointing performance of other sources of revenue is a cause for serious concern. Ethel Hazelhurst states that “Value Added Tax (VAT) revenue grew 12.1 percent in the first six months, down on 13 percent growth budgeted for the full fiscal year. The take from the fuel levy rose 4.5 percent, compared with the budgeted 11.3 percent. Revenue from excise duties was even worse, falling 5 percent instead of growing 10 percent. What these figures imply is that the reduced level of growth in consumer spending this year has left growth in government revenue from indirect taxes well short of budget.”

It has to be recognized by the South African government that rating agencies generally look beyond the fiscal data and despite the reasonable fiscal outcome, it is still far from certain that the credit rating on South African government bonds will not be revised downwards in the months ahead. It is imperative that the educational and skills outcome of the economy in order to make labour more productive and therefore more employable. This would reduce tension in labour relations, make companies more willing to employ people, accelerate the rollout of infrastructural projects and thus promote small businesses and entrepreneurship to drive the ailing economy of South Africa. Government is attempting in terms of the first – half fiscal balances to paint a picture that the budget forecast is on track. This is far from the actual reality. Table 1, hereunder shows growth in government revenue and expenditure as depicted by Hazelhurst (2013):

**Table 1: Growth in Government Revenue and Expenditure**

	February 2013 budget prediction	Apr-Sept 13
Personal Tax	11	12.2
Companies	6.6	9.5
STC	9.2	-95.8
Property Tax	4.9	26.7
Vat	13	12.1
Excise duties	10	-5
Fuel Levy	11.3	4.5
international trade	5.8	20.2
Revenue	10.8	10.1
Expenditure	9.6	9
Fiscal surplus/Deficit)Rbn	182.1	108.5
Borrowing requirements Rbn	178.1	101.7

Source: The South African National Treasury 2013

### **SALARIES UP BUT SPENDING STRAINED**

Zandi Shabalala (2013: 1) states that “while disposable salaries rose for the third month in a row in September, 2013, the negative bigger picture in the economy, which features high unemployment, reduced growth in government salaries, sluggish economic expansion and high inflation serves to erode household spending over the long term.” This indicates that there are still tough times ahead. More disposable income is but one part of the equation, in that household consumption expenditure

will increase marginally when one considers the figures holistically. While the economy is growing slowly, consumption will remain fairly robust because salaries are rising. Investec group economist Annabel Bishop (2013 in Shabalala) noted that “business and consumer confidence was low and is likely to continue to decline as people expected interest rates to increase.” According to BankservAfrica (2013: in Shabalala), “disposable income climbed 7.6 percent on year in nominal terms in September of 2013, compared with an increase of 1.3 percent a year ago.” Shabalala (2013: 1) “indicates that the number of black middle class citizens now makes up 41 percent of the country’s middle class and that wage inequality rather than unemployment was the cause of the high inequality in South Africa.”

#### **TRADE DEFICIT DANGEROUSLY WIDE**

The gap between South Africa’s revenue from exports and the cost of its imports remained alarmingly high in September, 2013. According to the Business Report (2013: 1) “data from the South African Revenue Service showed an R18.94 billion trade deficit, a little below the R19.1 billion recorded in August, 2013 but higher than the Bloomberg consensus forecast of R16.4 billion. The rand weakened on the news, breaching R10 rand to the dollar. (It is today the 11<sup>th</sup> of November trading at R10.36 – a great downside). The cumulative trade deficit, at R126.37 billion for the year, compares with R83.6 billion in the same period last year; after exports rose 12.5 percent and imports climbed 17.8 percent in the year. The import bill has been boosted by capital inputs for the state infrastructure programme, while exports have been weighed down by strikes and weak global demand.

The mounting trade deficit in the year will be compounded by the traditional deficit on the other leg of the current account; the services account. The latest data imply that the current account deficit, equal to 6.5 percent of GDP in the second quarter, will remain wide. “A ratio between 3 percent and 4 percent is seen as acceptable; a higher ratio leaves the currency vulnerable to investment outflows” (Hazelhurst, 2013:1). It is obvious therefore, that Local production and an improved global environment were necessary for South Africa’s economy.

#### **THE GOLDMAN SACHS REPORT ON THE STATE OF THE NATION**

There is much cheer by government about the Goldman Sachs Report on the State of the Nation but, the analysis paints a black hole in terms of unemployment realities in South Africa. In 1994, at the time of freedom and democracy 73 percent of black South Africans believed that their lives would improve following the first democratic election. What was more surprising was how few whites, only 8 percent believed that their lives would improve. These days, the massive tasks of the first years of transition, the ending of political violence, the reorganization of the homelands and the apartheid administration into a single unitary state with federal features of governance within the nine provinces and the birth of a new constitutional order, are taken for granted. What remains contested is whether South Africa has progressed over the past twenty years. Ray Hartley (2013: 3) states that “Colin Coleman, local head of Goldman Sachs, placed statistics on the table in an effort to provide a fact based account of the economy’s progress, or lack of it since 1994.” Coleman (2013 in Hartley) said that “he initiated the report, titled Two Decades of Freedom – What South Africa is Doing with it, and What Now Needs to be Done, because the dialogue around South Africa had taken a turn for the worse.” His concern was that there were no ‘empirical base underpinning the strong opinions exchanged about the state of the nation.

For several months, he has been presenting the results of his investigation to academic boards, to the Reserve Bank, to the Treasury, to government, to the African National Congress (ANC’s) top six leadership, including President Jacob Zuma, the opposition Democratic Alliance (DA), to business organizations and to the boards such as that of Anglo American. Hartley (2013) states that “it is a very balanced report and, is a good base of information for both the government and the private sector to

intervene and, in this regard one of Coleman’s key points was the upward migration of a large number of black South Africans out of the lower Living Standards Measures (LSM’s).” Measuring households against their acquisition of a range of consumer goods and property LSM’s provide the best insight into the quality of life. Add to this the rollout of social grants to some 16 million people and there has been a significant improvement. Coleman (2013 in Hartley) states that “before democracy, only 8 percent of whites believed their lives would improve, but many more had benefited and states that there is evidence that whites have gone wealthier on an aggregate basis.

Despite the improvement by 9 percent of people living below the poverty line and that 19 million people have entered the LSM 5 – 10 demographic since 2001, there is a lack of commitment by government to tackle unemployment and Coleman (2013) adds that “failure to tackle unemployment still mars the ANC’s track record, and the failure of South Africa to absorb new entrants into the labour market and describes this as the “youth unemployment problem. He further adds that no less than 71 percent of the unemployed are between the ages of 15 and 34, while 44 percent of the unemployed have never worked before. The average unemployment rate has hovered around the 25 percent mark for the past 19 years.” Coleman’s statistics clearly show that while labour productivity has improved, this improvement has been nullified by sharp rises in wages.

The second major problem which the country faces is the absence of net foreign investment, exacerbated by capital outflows. Coleman (2013 in Hartley) states that “he does not believe that these problems will be addressed by another round of planning because South Africa has the plans but needs to execute them.” In this regard there appears to be fresh momentum behind the National Development Plan (NDP) which has been vigorously opposed by the trade unions. The question arises is the above reports statistics so crafted in order to give a spin to the failures of the South African government. In this regard the paper will provide a more rational oversight of the report in further discussion. Table 2 below shows the Standard and Poor credit rating, the advances made since 1994 up to now and, the remaining challenges, as concerns South Africa’s development.

**Table 2: Advances and Challenges**

	Advances		Challenges remaining
	1994	now	
S&P Credit Rating	BB(sub investment grade)	BBB (investment grade)	14 million working and 7 million not
GDP	\$136bn	\$400bn	70% of the unemployed are under 34
Inflation	1980-1994 agv:14%	1994-2012 agv:6%	85% of blacks poor, 87% of whites middle or upper income
Tax receipts	R114bn/1.7 million people	R814bn/13.7 million people	Mining and manufacturing % of GDP now 23%
Gross gold and FX reserves	\$3bn	\$50bn	Mining wage inflation 11% over 10 years whilst productivity fell 4%
JSE market cap	\$101bn	\$800bn	Current account deficit equals 6.5% or \$25bn
Labour productivity per worker	\$8800(2002)	\$25600(2012)	Net FDI averages only \$1.9bn since 1994
LMS 5-10	13.8 million people(2001)	23.5million people(2010)	Household debt to disposable income 76%
Social grants	2.4 million people	16.1 million people	Lost labour working days in last decade 10 times more than previous
Household electricity	58%(1996)	85%(2011)	Health, education and R&D

Source: Sunday Times November 10, 2013: Is the glass half full or half empty?

**GOLDMAN SACHS REPORT CAN BE LETHAL TO SOUTH AFRICA**

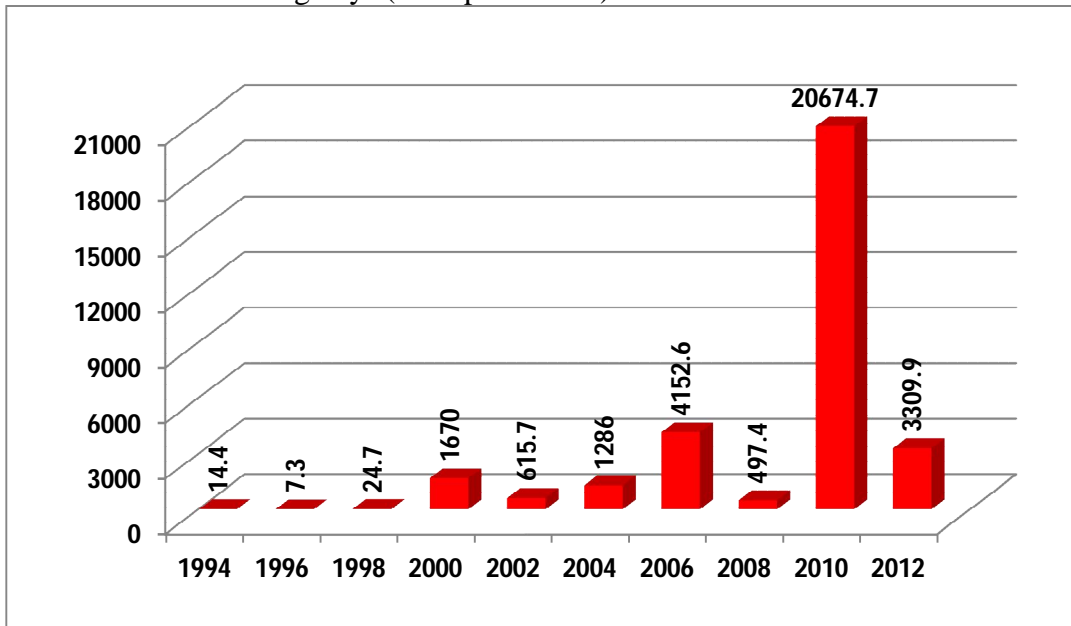
The tone of the above report seems weird, the numbers so widely spun that it resembles a Lotto raffle and we are all winners according to Poplak (2013: 3). One wonders why a solidly researched, unbiased report might have smacked the South African government out of its complacency, but the report goes

off the rails because it paints a picture about South Africa being even more African, dominates the political and commercial landscape and makes the African community the key determinant of the political and economic life of the country. Suddenly Poplak (2013) states that “thanks to Goldman Sachs, 45 million black South Africans represent a solid bloc, unified in determining the political and economic life of the country. This is a mighty skewed portrait of South Africa.” The good news is that Goldman Sachs, the pillar of gloves off capitalism the world has ever known, have revealed themselves as champions of the poor, as Marxists with a cheque book. “The poor, bleats the document, have benefitted from cash and non – cash state transfers. While unemployment has remained high with a net 900 000 added to the unemployed in 20 years, those with employment have in fact grown by 4.1 million in the period. Employment has therefore grown, albeit at an insufficient rate to bring the aggregate percentage unemployed down” (Sunday Times, 2013: 3). Goldman wants us to believe that while there is no change in the unemployment percentage, there are more actual people working.

On page 3 of the report Poplak indicates that “service delivery has improved since 2002, which quotes entirely from Statistics South Africa 2012 General Household Survey. It corroborates the suspicion of government spin to the statistics. The reality is the all embracing fact that the single largest flash point in South Africa service delivery goes virtually ignored in this report. Hartley (2013: 3) states that the Goldman Sachs report “gets a failing grade and passes only in the category of advertising (Government propaganda reinforced).” The question is not how we felt 20 years ago but, how we feel now. Why is Goldman Sachs bothering with all the spin? Very simple, Goldman, like many US investment firms, is now in the business of selling emerging markets. The Africa rising narrative serves their interests and will therefore craft nonsense reports to educate their jittery but credulous client base. The tragedy is that the story of Africa’s rampant growth has been hijacked by those who seek to profit from it, and in profiting they do not care if they destroy it. The ANC as faceless as it is released a fawning press release in that the report makes an incisive assessment of the successes and challenges that have characterized South African society since the advent of democracy. We as South African are being used by mere gymnastics. The report is a commercial for the emerging market story Goldman are currently selling. The report does South Africa a disservice and the government greater disservice by glossing over the deep economic cracks and economic failures of the South African government after 20 years of failed economic transformation. It is an indictment to the people of South Africa. The report could end up as being lethal to South Africa. Table 3 hereunder shows Industrial strike action, whilst Table 4 indicates unemployment since 1980.

**Table 3: Industrial Strike Action**

Increased significantly since 2005  
 Number of lost working days (000s per annum)



Source: Sunday Times November 10, 2013

**NOTE:** According to Euromonitor, IMF WEO Database, Stats SA Quarterly Labour Force Survey (Poplak, 2013:3, Sunday Times) : – Unemployment according to the narrow definition i.e. unemployed workers are those who are currently not working but are willing and able to work for pay, currently available to work, and have actively searched for work.

The narrative below as cited by Poplak (2013: 3) shows the following in respect to unemployment in South Africa, since 1980 as the percentage of unemployment:

1. 1980 to 1994, 22.9 percent (average 15.8) percent unemployed people.
2. 1994 to 2007, 24.6 percent (average 3.9 million unemployed people).
3. 2007 to 2012, 24.3 percent unemployed people.

It is obvious that unemployment in South Africa has reached critical proportions and in reality is not improving. This exacerbates inequality and poverty within the country.

### **DOGMA AND DENIAL OF THE TRADE UNIONS**

What is crucial is the role trade unions could or should play in the technological, social and political circumstances of South Africa in the 21<sup>st</sup> century. Trade unions the world over are embattled and apparently finding difficulty adapting to the changed circumstances of this century. To varying degrees they react to challenges in the manner of decades past, without apparently realizing the potential they have to influence the way forward in what is a changed world. They are creations of the present economic system, brought into being by the exploitative nature of the system. Their strength lies in their essentially democratic character and authority lies with the membership authority. It would require the unions to return to their democratic roots, to dispense with the bureaucracies that have come to dominate, distort and manipulate them. In many cases, the bureaucracies have themselves been manipulated by outside forces ranging from big business to governments and political parties.

In South Africa, more than in many other countries, political dogma has come to dominate within the major union movement. Any organizations failure to evaluate reality and conducts its business within the realms of dogma often plan, and develop policies that are often woefully inadequate or even

destructive. Denial also often becomes a prime reaction when illusion based on dogma are threatened or challenged. It's a knee – jerk act of self preservation. All of this is based on ideological dogma. On the trade union front, the most recent prime culprits have been the National Union of Metal Workers of South Africa (NUMSA) and the South African Democratic Teachers Union (SADTU). Clashes among federation affiliates echo the ongoing spat between what can only be seen as supporters and opponents of the suspended Congress of South Africa Trade Unions, General Secretary, Zwelinzima Vavi. The feuding affiliates insist that unity still prevails and that, the creation of factions is the fault of the media. All trade unions within the Federation of the governing ANC led alliance are faithful to the ruling party, the only vehicle to advance the cause toward some ill – defined socialist future.

Even when problems are admitted to exist, these are played down; with assurances that trade unionism is in good health. However, in order to consolidate democracy and to hold the ruling party accountable, numbers are not important, in reality South Africa and its people are more important. What is important and crucial is the role of trade unions within a fragile and corrupt government and, the role that trade unions should and could play in the technological, social and political circumstances after 20 years of failed democracy and further, the pivotal role unions can play in the 21<sup>st</sup> century. This has to be achieved without let or hindrance or fear or favour by the ruling elites of South Africa. It is therefore absolutely critical and fundamental that the unions regain their past glory that delivered South Africa from the yoke of apartheid domination and oppression. They have to therefore go back to the first principles of egalitarianism, democratic control, accountability and transparency is and will be a worthy start. In order to reach this stage there should be no dogma. The unions have a major role to play in restoring acceptable democracy and to save South Africa from the predatory elite and from itself.

## **CONCLUSION**

This paper attempted to discuss some important and salient issues that seriously affect South Africa in terms of its economy, with particular reference to its trade deficits and overspending realities. These trends if continued by government can and could have lethal effects on the South African economy. It would hamper the emergence of the developmental state and further place the majority of the population into further poverty. The paper also made a clarion call to the government of South Africa to deal with the unemployment crisis. It projected upon the lack luster performance of the African National Congress government post 1994. It further analyzed Goldman Sachs most recent, 2013 report on South Africa and, criticized the spin that it attempted to undertake and delineated the reasons as to why Goldman Sachs positively analyzed the situation in South Africa and, to the advantage of a government that has performed very poorly over the last 20 years of its democracy. It is hoped that this paper clears the picture in the mind of the reader. It is further hoped that the South African democratic government will address the issues raised in this paper in terms of improving the material conditions of the poor, consolidate democracy, curb over – spending and corruption that, has become endemic within the country. Only if this is done can the trade deficit be addressed meaningfully in the quest of promoting the general welfare and thus, securing the aim of achieving a developmental state. Failure to understand these issues on the part of government will only have devastating consequences of a lethal nature.

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