Geekonomics: Some More New Year’s Wishes

The Geeks begin this year as they did the last two—with some economic policy wishes for the next 12 months. We hope that the new ANC leadership is listening because the last lot paid us scant attention. Despite our monthly commentary and advice there has been virtually no progress on any of the issues raised in our previous two wish lists. To aid the reader and make our own task that much easier, let's recap.

In February 2006 we called for the simplification in the structure and reductions in the rates of South African import duties. South Africa has one of the most complex tariff schedules in the world and protection remains relatively high on almost all products made in the country. The existing tariff structure penalises poor consumers and reduces the incentive to export.

Two years later there has been no further reduction in rates. The most recent budget statement from the National Treasury made an eloquent and persuasive case for unilateral tariff reductions and simplifications. This case is supported by a growing body of economic evidence from within South Africa and abroad. The DTI has acknowledged that the system could be simplified. And they plan to spend the next two years thinking about this!

What else has happened over this period?

To the glee of Vietnam and Bangladesh, punitive quotas have been imposed on clothing imports from China, and trade negotiations with the USA and EU have collapsed. The empty agreement with MERCOSUR that was concluded in 2005 has still not been implemented and the Doha round of WTO negotiations are going nowhere slowly. South Africa has made its own contribution to the collapse of these negotiations by refusing to liberalise in order to protect the interests of its smaller and poorer SACU partners. They, in turn, have rejected South Africa's paternal protectionism in agreeing to their own liberalization program with the EU.

Again, we ask for some trade reform in 2008. With inflation and interest rates running high South African consumers deserve some relief.

Our second wish in 2006 and 2007 was for a positive conclusion to the DTI’s review of the motor industry development program (MIDP). We wished (twice) for “greater transparency and accountability…and a truly independent review of this programme with a serious analysis of its benefits and costs.”

The DTI has announced that it will make an announcement in the second half of 2008, and that decisions will be based on an analysis of the costs and benefits of policy options. This announcement about announcements is certainly good news; but one has to wonder where this analysis will come from if the DTI and two sets of consultants have failed to provide it during the past three years (or in two previous MIDP reviews). And one also has to question how and why, in the face of such a commitment, the DTI has already agreed, as it appears to have done, to continued support of the industry until 2020.

Our 2006 and 2007 wish lists concluded with some general observations about trade and industrial policy. We pleaded for rationality, sensible economic analysis and a shift away from the sector subsidies and protection of the past. In return we got the DTI's National Industrial Policy Framework (NIPF).

The NIPF is none of the above. It is based on outdated and unproven ideologies, lacks economic coherence and analysis and adopts a sector (rather than an economy-wide) approach. Last year this approach gave us a set of incentives for business processing outsourcing (BPO) with little apparent rationale in terms of the key constraints facing this industry – high prices and low quality of telecommunications services – and almost no uptake. And it gave us a Developmental Electricity Pricing Programme (DEPP) to lure an elusive and high-cost electricity-guzzling investment at a time when our own households are uncertain whether they will be able to get enough electricity to take a hot bath, watch TV or write a newspaper column.

Rather than dwell on our past failures we have chosen to include one new wish to carry us through 2008.

South Africa is among the dirtiest power producers in the world. In fact, Eskom was ranked last year, as the world's second most polluting utility. At the same time we are among the countries most vulnerable to the possible impacts of global warming. We have much more than most to gain from a global solution to the problems of CO2 emissions. Should we make new investments in expensive and cleaner technology for the global good or instead look to ride off the good behaviour and investments of others? Let us add to this year's wish list the need for all of us to get our heads around the complex but crucial issues of resource scarcity and global warming.

To end again with a mantra that we are only too happy to repeat:

"We would like to take this opportunity to wish all taxpayers and consumers a good 2008!"

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