South africa economic update

Countries

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 OVERVIEW

South Africa's economic growth performance and outlook has been affected by global developments such as the global recession starting in the US and escalating oil prices in the middle-east causing cost-push inflation and has been revised downwards. In fact, these challenges have moved in tandem with international economic indicator trends and are exacerbated by supply side problems, including domestic unemployment, inflation rates beyond the Reserve Bank targets of between 3 and 6%, skills shortages, a globally less-than-competitive industry, climate changeand its negative impact on agriculture and water supplies and a volatile rand.

Highfoodand energy prices have been major contributors to consumer price inflation. Increased food prices, together with a shortage of staple foods, have resulted in food stock levels being the lowest in years and therefore creating high food insecurity amongst the poorer section of our communities. In the light of these economic conditions both internally and externally this policy statement framework has been produced. A. ADDRESSING INFLATION INTRODUCTION Many experiences and authors of economic books shape my concept of inflation.

I would in the light of my understanding ascribe inflation as a consequence of human indiscretion due to wants and not of needs. People always have an insatiable desire for more and more goods that are describe by many as the economic problem. When I draw up my policy framework for the performance of the economy I will address and prioritize the following issues namely price stability (control inflation), full employment, balance of payments, equitable distribution of income in order to stimulate economic growth. DEFINITION OF INFLATION

Mike Moffatt[1] defines inflation as an increase in the price of a basket of goods and services that is representative of the economy as a whole. A similar definition of inflation can be found in Economics by Parkin and Bade[2]: Inflation is an upward movement in the average level of prices. Its opposite is deflation, a downward movement in the average level of prices. The boundary between inflation and deflation is price stability. Also according to McConnell, (2002: 146) inflation is a rise in the general level of prices.

Thus according to McConnell inflation does not mean the increase in price level of one or two items but increase in price level of goods and services in general. But Mohr and Fourie (2008: 474) state inflation as the continuous and considerable rise in prices in general. As what can be seen from both definitions are (a) in general (b) rise of prices. But Mohr and Fourie go further and define inflation as a neutral definition without specific causes. However in many instances authors will describe inflation as excessive increases inmoneysupply, etc. Which can be causal definitions. Also Mohr and Fourie will further state that nflation is a process and also concerns continuous and considerable increases in prices in general. Therefore then, one can agree with the definition of Mohr & Fourie: Inflation is a continuous and considerable rise in prices in general. TYPES OF INFLATION In an article " What is inflation: Five types of inflation defined" by Tom Au[3], Tom argues for the following types of inflation namely (i) commodity inflation, (ii) wage inflation, (iii) monetary inflation, (iv) fiscal inflation and (v) foreign exchange inflation. I would also argue that these types of inflation constitute the " major" types of inflation in SA.

However these types of inflation can be divided and sub-divided into smaller units and subunits. For the purpose of this writing I would consider the broad divisions as sufficient. (i)Commodity Inflation Commodity products such as petroleum are in many cases a reason for an inflationary spiral. Other commodities could also contribute to this type of inflation such as other metals and other solid raw materials such as copper, coal, etc. Commodity inflation, better known as cost-push inflation, refers for example to a surge in the oil price – which obviously has nothing to do with domestic consumer demand.

It concerns prices set on global markets over which the Central Bank has no control. The petrol price that stems from the cost of a barrel of oil thereby creates a volatile escalation of prices of goods and services because the increase in cost for a barrel of oil is transferred to the cost of production and eventually to the cost of consumer products. For example last year in June 2008 the petrol price went up by 50 cents a litre after a 55-cent increase in April 2008. The price of unleaded petrol in Gauteng increased to 996 cents a litre and to 972 cents a litre at the coast.

Diesel went up 0, 05 percent; sulphur went up by 71 cents, the wholesale paraffin price increased by 71 cents. [4] Even though at that point in time the country struggled with escalating food and power prices we had another fuel price increase. The consequence of the escalating prices of petroleum and thus oil and other fuel prices caused the price of everything else to go up and thus commodity induced inflation. ii) Wage Inflation It is my estimation that the type of inflation that has the largest impact on inflation is wage inflation or in other words demand-pull inflation.

Employees become aware of the rising prices and demand more money in the form of higher wages. There are numerous examples of wage strikes in South Africa. For example Barbara Slaughter[5] reports “ The longest public service strike in South African history. The dispute began on June 1, when workers from 17 unions took all-out strike action in support of a demand for a wage increase of 12 percent across the board. The strike involved 700, 000 workers—professional, skilled and unskilled. It received widespread support amongst the rest of the working class in South Africa.

On June 13, 2007, hundreds of thousands of municipal workers took part in a one-day solidarity action in support of the strike. They included taxi and bus drivers, electricity and cleaning workers, and administrative workers from border posts and airports. On that day, all the major cities in South Africa were brought to a standstill because of mass demonstrations in support of the public service workers' strike". Eugene Puryear reports in his website about the same strike as " Nearly one million hospital andeducationworkers have been on strike"[6]. This is only one example of the impact of a wage strike on the economy of the country.

How many labor hours have gone lost which impact on production and could cause a lowering in the GDP of the country. If inflation could also be defined as too much money chase to few products, then this wage strike cause a reduction on production and thus inflation. iii) Monetary Inflation It can happen that the Reserve Bank governor refuses to increase the interest rates whilst the cost of living is high. Thereby causing too much money floating the economy and people maintain demand for goods whereas the supply is not sufficient for demand causing the cost of goods to rise.

There can be much confusion between cost-push and demand-pull inflation. It is noted by some business reporters like Greta Steyn that Mr. Tito Mboweni did not " recognize" the before mentioned types of inflation therefore blaming the increase in inflation to commodity inflation and asserted that inflation is caused by the foreign global economy and not domestic demand-pull inflation. Mr. Mboweni indicated that his interest rate action (increase prime rate) had already done enough to curb demand.

However he did not raise enough on interest rates implying a relatively low interest rate that causes yet a strong demand for goods and thereby not curbing inflation further. The inflation rate currently is 8. 5% at present well outside 3 - 6% target. iv) Fiscal Inflation Fiscal inflation is caused when government spending exceeds revenues. Overspending cause a deficit on the balance of payments. The deficit however must be recovered by most probably the increase in income tax of public and private sectors. During the current crisis in 1996, the government introduced the GEAR strategy.

GEAR’s key element are reduced government spending, also the rate of inflation, with the view to encourage private investment, economic growth, and thereby job creation. But the government reduced the budget deficit from 4, 6% in 1996 to 2, 6% in 2000. The average reduction over this period is 3, 1%. But when government spending drop private investment spending was expected to be 11, 7% by the year 2000. However private investment average a mere 1, 2%. If government does not spent and private sector default on spending the result will be unemployment, economic instability as well political vulnerability.

Under these conditions there will be civil demands for higher wages that could be inflationary. It is said by some that a war increase government spending. If this is the case then we wage war against ourselves in this country. (v) Foreign Exchange Inflation Foreign exchange inflation happens when the local currency falls dramatically against other world currencies, thereby sharply raising the price of imported goods and hence the overall price level. INFLATION INFLUENCING SOUTH AFRICAN ECONOMY THE MOST

The three most volatile types of inflation that influence the South African economy is Wage Inflation, Commodity Inflation and Foreign exchange inflation. As seen from the examples government spending has definitely slowed down in order to decrease the deficit and thus lifting the burden on tax payers to food the bill. So for the interim fiscal inflation is kept under control. The Reserve Bank by means of monetary policy is in “ control” of the money supply in the economy. If you increase money supply faster i. e. lowering the prime rate, than your economy grows, you will have too much money chasing too few goods.

The price of goods will therefore increase. Thus an increase in inflation. Therefore to stabilize inflation you have to reduce the money supply and thus increase the prime-lending rate. Monetary inflation is a function of the Reserve Bank and within the control of the Governor of the Reserve Bank by means of monetary policy. SOLUTIONS FOR INFLATION 1. Contractionary Fiscal Policy If the government looks to fiscal policy to control inflation its options are (i) decrease government spending (ii) raise taxes or (iii) some combination of the two policies. (i) Decrease government spending

To control demand-pull inflation the government should reduce government spending. Reduction in government spending reduces aggregate demand and thereby halts demand-pull inflation. (ii)Raise taxes By raising taxes the deposable income of consumers is reduced thereby decreasing aggregate demand, which is anti-inflationary. (iii) Combination of Decrease government spending and Raising taxes As can be expected a combination of the two may have a quicker anti-inflationary effect on consumer spending. 2. Monetary Policy The monetary policy committee is given an inflation target by the government, which is between 3% and 6%.

The tool that is used by the reserve bank is to use interest rates to achieve this inflation target. Increase interest rates will help reduce the growth of aggregate demand in the economy. A reduction in aggregate demand will slow down growth and will induce a decrease in inflation rate. 3. Exchange rate policy This policy is used to keep the value of the Rand high. Resulting in a favourable market for imports. The price for imported goods will be expensive and when companies apply investment spending the cost will be transferred to the consumer. This tool to reduce inflation is not very useful because it can cause a recession. . Disposing of surpluses When the economy faces demand-pull inflation, fiscal policy should move toward a government budget surplus i. e. tax revenues in excess of government spending. But the anti-inflationary effect of the surplus depends on what the government does with it. I would suggest to the government to impound the surplus. When a surplus is impounded the government is extracting and withholding purchasing power from the economy. Thus, there is no chance that the surplus fund will create inflationary pressure to offset the anti-inflationary impact of the Contractionary fiscal policy.

B. ADDRESSING UNEMPLOYMENT INTRODUCTION According to Mohr & Fourie the second macro economic objective is full employment. However in theory full employment can be accomplished but in reality government spending and tax collection is never equal. Therefore when government is dealing with a deficit budget (government spending in excess of tax revenues) the economy is at a down turn since aggregate demand slow down and thus GDP also drops with the result of unemployment. Thus this macro economic evil must be understood in its broader sense.

In this writing I will deal with the definition for unemployment then describe the different types of unemployment, the causes of unemployment, types of SA unemployment and solutions to unemployment. DEFINE UNEMPLOYMENT " Prior to 1994, the strict definition was used by Stats SA to estimate unemployment in South Africa, with the result that the official estimates were generally regarded as being too low. Stat SA subsequently switched to the expanded definition, but some observers (including the International Labour Office) regarded the new official estimates as being too high.

In June 1998 Stats SA reverted to using the strict definition as the official definition, although estimates based on the expanded definition are also published. " (Mohr & Fourie, 2002: 498) Statistics South Africa defines unemployment (strict definition) as those in the economically active population – (aged 15 to 65) and are either employed or seeking work, - who: i. Have not worked during the last seven days prior to being interviewed; ii. Want to work and are available to start work within a week of theinterviewby Stats SA; iii.

Have taken active steps to look for work or to provide themselves with self-employment in the four weeks preceding the interview. However the expanded definition omits requirement (iii) because many unemployed people become discouraged after several attempts to look for employment. [7] DIFFERENT TYPES OF UNEMPLOYMENT AND THE CAUSES THEREOF The basic distinction of unemployment is between voluntary and involuntary unemployment. But the unemployment rate is expressed as the percentage of the labour force (people who are willing and able to work) that cannot find a job. Thus in reality there is only involuntary unemployment.

Those that prefer by own volition to be without work cannot be regarded as unemployed. In economy the usual distinction amongst types of unemployment is between frictional unemployment, seasonal unemployment, structural unemployment and cyclical unemployment. (i)Frictional unemployment Frictional unemployment exists because of lags between workers leaving one job and taking up another and because there are times of the year when many new workers (e. g. school-leavers) enter the labour market. In these circumstances there is some delay in finding them all jobs. (ii)Seasonal unemployment

Seasonal unemployment arises because certain occupations require workers only for part of each year e. g. picking and processing of food and vegetables and tourist regions that are busy during peak seasons. (iii)Structural unemployment Structural unemployment is caused by changes in the structure of an industry as a result of changes intechnologyor tastes. For example increasing automation in manufacturing industry, encouraged by recent developments in computer technology, has made many skills obsolete. Thus whole communities may become unemployed until new skills have been acquired. (iv)Cyclical unemployment

Cyclical (or demand-deficiency) unemployment happens when there is a decline in the economy as a result of a lack of demand. A lack of demand curbs production and therefore management will try to cut costs by laying off workers, but only until demand increases then workers will be asked to come back. (v)Apart from the above mentioned causes of unemployment the following should also be mentioned In today's economy unemployment has a variety of causes. Nevertheless some of them relate to the general level of economic activity while others are the result of afailurein the labour market in an economy to work optimally.

Mohr & Fourie indicates that South African unemployment rate in the past two decades originated from the supply side of the labour market as well as from the demand side. Supply side Every year the number of school leavers are added to the labour force. Thus the growth of the labour force exceeds the demand post by the economy. The economy can absorb only a certain amount of workers especially when the growth in GDP is not sufficient to provide in jobs for the new entrants into the labour market. When the growth in the labour force is greater than the number of the opportunities, unemployment sets in. Demand side During a slump in the economy the price level of goods is high i. e. inflation is increasing. Goods and services are expensive and leads to workers demand a higher wage. In order to cut production costs and thereby keep companies profitable workers are laid off. Thus leading to wage demand unemployment. Unemployment due to inflation – the Phillips curve Inflation does cause unemployment but it need not necessary be the case. In the short term the Phillips curve happens to be a declining curve i. e. there is a negative relationship between inflation and unemployment.

There is thus an increase in aggregate demand that usually lead to an increase in production and income and simultaneously increase in the price level of goods and services. And conversely a decrease in aggregate demand results in decrease in production and income and a simultaneously decrease in the price levels. But the level of production is positively related to the level of employment i. e. if production goes up then employment also increases (unemployment decreases). Therefore if economic activity is high unemployment is low, production is high, price levels start to increase and inflation begins to set in.

When prices become too inflated then aggregate demand starts to decrease, but decrease in price levels does not happen immediately. Therefore the continued increase in the price levels irrespective decrease in aggregate demands leads to unemployment because manufacturing of goods slow down due to the lack of demand. The Phillips curve led many economists to believe that there could be a trade off between unemployment and inflation. In other words, a lower inflation rate could be achieved by trading it off against greater unemployment. And a higher inflation rate could be achieved by trading it off with a lower inflation rate.

The abovementioned scenario explains the short-term effect depicted by the Phillip curve but the long-term effect of the Phillip curve show that unemployment and inflation are not related. In the long run when labour and capital are at full capacity, an increase in aggregate demand affect the price levels only. It is clear that this is the point where inflation increases sharply i. e. the price levels of goods and services, because of continued increase in demand, becomes so expensive that eventually demand for products drop and consequently the demand for employment also drops.

Thus unemployment sets in. Stagflation In the 1970's inflation and unemployment increases at the same time. This phenomenon is called stagflation. This is an economic problem that is twice as serious as in the case when there is a trade off between either unemployment or inflation. When it so happens that the oil prices increase by 300%, this higher energy prices would spread through the economy, driving up production and distribution costs on a wide variety of goods.

It is quite obvious to understand that transport is most important in the supply chain of production especially in the upstream portion of the supply chain, which includes the company suppliers, the suppliers' suppliers. But transport is also needed in the downstream portion of production, which consist of processes for distributing and delivering products to the final customers. [8] Hence the resulting increase in the price level because of cost-push inflation. Also real output declines while price levels rise. This means a simultaneous increase in the levels of unemployment and inflation (stagflation).

SOLUTIONS TO UNEMPLOYMENT South Africa's unemployment rate rose to 23. 5% in the first quarter of 2009 from 21. 9% in the previous three months, Statistics SA said on Tuesday. (Sapa, 5 May 2009) A total of 208 000 people living in SA lost their jobs between the last quarter of 2008 and the first quarter of 2009, according to the Pretoria-based agency's quarterly labour force survey. The survey shows that losses occurred both in the formal (88 000) and in the informal (96 000) sectors. (Sapa, 5 May 2009). There is thus a more than a fifth (1/5) of people unemployed.

This represents a huge cost to government and to society as a whole. Firstly I would proposed a joint government, business and labour task team to clampdown on cheap imports into SA as part of a number of measures aimed at helping local companies retain jobs and stay afloat through the global economic slowdown. These measures would aim at the following: • That business pledge to do everything in its power to avoid retrenchments; • Retraining people who face retrenchment and therefore become re-employed soon; • Creation of jobs through the Expanded Public Works Programme i. . promote labour intensity; • Discuss ways of lowering the cost of capital. However a much promising strategy would be to raise the demand for domestically produced products by increasing the demand for exports. Therefore as previously mentioned we must assist export in the following ways: (i)Assist potential exporters to find international markets, and subsidize some of these costs. (ii)Allow or engineer a depreciation of local currency against other currencies, thereby making exports more competitive. iii) Implement import restrictions i. e. tariffs and quotas.

We could also reduce unemployment by stimulating and promoting small businesses and the informal sector. I believethat small businesses create more employment than larger business ventures. C. ADDRESSING INCOME DISTRIBUTION AMONGST DIFFERENT SECTIONS OF THE POPULATION INTRODUCTION Knowledge about the nature of income distribution is necessary for social development and thus for the distribution of resources where it is needed in order to create a fair society and better life for all who live in it. Nationally for any particular country society will because as a consequence of a free market society be stratify into various dimensions.

Thus the conclusion “ knowing the nature of income distribution” amongst the different population sections. In order to accomplish this objective I will address the following aspects of income distribution amongst the different section of the population. (i) Measurement of income distribution, (ii) General causes of differences in income distribution, (iii) Specific causes in the SA context and (iv) How can it be addressed. MEASUREMENT OF INCOME DISTRIBUTION Generally the Lorenz curve is often used to represent income distribution, where it shows for example the bottom 20% of all households have 10% of the otal income. A perfect equal income distribution would be one in which every person have the same income for example 20% of households have 20% of total income. This can be depicted by a line of perfectequality. By contrast, a perfectly unequal distribution would be one in which one person has all the income and everyone else has none. If the horizontal-axis or the Lorenz curve is the x-axis and the vertical axis is the y-axis then in a perfectly unequal distribution this curve will be call the “ line of perfect inequality”.

The Gini coefficient is the area between the line-of perfect equality and the observed Lorenz curve, as a percentage of the area between the line of perfect equality and the line of perfect inequality. (This equals two times the area between the line of perfect equality and the observed Lorenz curve.) The higher the coefficient, the more unequal the distribution is. [9] GENERAL

CAUSES OF DIFFERENCES IN INCOME DISTRIBUTION From all the factors of production the cost of labour as part of the GDP is the most influential, simply because it involves human beings.

And human beings are the most varied and complex factor in the factors of production. In a perfect labour market all workers have the same education and training, have the same skills and earn the same wages (income). But the labour markets are not homogeneous. In fact it is imperfect and even if all the other labour markets are in equilibrium (balance between supply and demand of labour) there will be always differences in what workers earn. DOMESTIC DEMAND FOR LABOUR The most important aspect of the demand for labour is that it is a derived demand. (Mohr & Fourie, 2008: 282).

Domestically demand for labour will depend on production on goods and services. This means if production increases the demand for labour will also increase. Demand for products will influence the profitability of that product industry and thus the income and spending of that particular section of the population. Most countries have basically the same product mixture, but demand for the different products can differ sharply and thus will produce inequality in income amongst different sections of the population. DOMESTIC SUPPLY FOR LABOUR An increase in the wage rate will induce more people to enter the labour market and supply their services.

The market supply of labour will this have a positive slope, indicating that the quantity of labour supplied will increase as the wage rate will increase. But absorption into the labour market depends on the nature of the product market, which offer that employment. As indicated previously the product industries produce different products and therefore different demands, which will lead to different wages. The different products need different skills. Therefore the discriminating factor amongst the different products will be the different skills amongst workers and thus the difference in income amongst the various sectors.

FOREIGN DEMAND AND SUPPLY FOR LABOUR The Stolper-Samuelson theorem predicts that international trade influences relative factor demands and thus factor prices. [10] The basic idea of this theorem is that trade affects prices of products which in turn affect factor prices by changing relative factor demands. Once again the demand for labour will depend on supply of products and thus supply of the appropriate labour, which in turn will influence the income for various groups of income. SKILL-BIASED TECHNOLOGICAL CAUSES

The single most cause of change in the income distribution is technological change. (David G. Blanchflower and M. J. Slaughter: 78) A few recent papers provide direct evidence of this technological shift and link it to wage outcomes. Berman, Bound and Griliches present several case studies that document the technological changes that have occurred in industries experiencing large shifts towards more skilled workers. According to Laudon (1998:) "… over half (55 percent) of the US labour force consists of information workers and 60 percent of the GDP of the US comes from the nowledge an information sector, such asfinanceand publishing". It is argued in general by many authors that skill-biased technological change is a global phenomenon. That is to say by implication that income distribution, unemployment is a consequence of jobless growth caused by technological and capital investment. SPECIFIC CAUSES IN THE SA CONTEXT The South African context from a wage inequality perspective is a very complex subject. One is impulsively inclined to think racialdiscriminationwhen you think about inequality in any aspect in S.

A. But Mohr & Fourie point out not to ascribed most or all differences in remuneration to discrimination. However many writers would provide statistical detail from STATS SA, October household surveys to prove that the inter-racial income distribution gap over the past three decades have narrowed. But this narrowed income gap can be misleading due to poor statistics and because of rising income of an elite group of black people. Meaning a large income for the upper income group will be a misleading average on income for a specific group.

The trends for unemployment and income are still highest amongst black people. The following reasons for this inequality can be extrapolated from the following data. Table1. Labour absorption rates | Category | Absorption rates | | African men | 35% | | White men | 68% | | African women | 22% | | White women | 44% | Source: UNDP human Development Report, SA. 2000) Estimations from this data indicate that the trend is that the labour market does not easily absorb African men and African women. White women not absorbed into the labour market do not mean they are unemployed. This leaves many African men and women unemployed creating income inequality between whites and blacks. Table 2. Mean monthly income (Rand) Sector | Men | Women | | Formal Average (white workers)* | 7514 | 4774 | | | | | | African workers | | | | Formal (urban) | 2204 | 2068 | | Informal (urban) | 1012 | 845 | | Informal (non-urban) | 705 | 524 | | Domestic (urban) | 903 |

537 | | Domestic (non-urban) | 347 | 397 | | Agriculture (formal) | 1011 | 599 | | Agriculture (informal) | 386 | 306 | | Average (African workers)* | 938. 29 * | 753. 1 * | | | | | (Source: Statistics South Africa, October Household Survey, 1999) (* Own interpretation) Once again this is an estimation and extrapolation to give an indication to show the averages of income amongst whites (men R7514 p/m woman R4774 p/m) and blacks (men R938. 29 p/m woman R753. 71p/m). Table 3. Annual per household income (constant Rand): 1991 and 1996 | | African | White | | | 1991 | 1996 | 1991 1996 | | Poorest 50% | 3 005 | 2 383 | 35 028 | 29 549 | | 41-60% | 9 519 | 9 120 | 96 444 | 83 506 | | 61-80% | 18 497 | 19 183 | 155 763 | 134 821 | | 81-90% | 33 843 | 37 093 | 228 018 | 207 243 | | Average | 12 972. 8 | 13 555. 8 | 103 050. 6 | 91 023. 8 | (Source: UNDP human Development Report, SA. 2000) There is a slight movement in income from 1991 (R12 972. 80) to 1996 (R13 555. 80) in the African household income. There is a decrease from 1991 (R103 050. 60) to 1996 (R91 023. 80) in the White household income. But look at the difference in income for Blacks average in 1996 (R13 555. 80) and Whites average in 1996 (R91 023. 80). A difference of R77 468. 00. Table 4.

Gini coefficient, 1975 – 1996 (1 = total inequality / 0 = total equality) | | 1975 | 1991 | 1996 | | African | 0, 47 | 0, 62 | 0, 66 | | White | 0, 36 | 046 | 0, 55 | | Coloured | 0, 51 | 0, 52 | 0, 56 | | Asian | 0, 45 | 0, 49 | 0, 52 | | TOTAL | 0, 68 | 0, 68 | 0, 69 | (Source: UNDP human Development Report, SA. 2000) Table 5.

Gini coefficient estimates of income and expenditure inequality | Disposable income | Gini coefficient | | Black African | 0, 63 | | Coloured | 0, 59 | |

Indian/Asian | 0, 57 | | White | 0, 56 | (Source: IES 2005/2006) * I have combined the two Gini coefficient tables 4 & 5 in the table below Table 6 to show that the Gini coefficients from 1996 to 2006 i. e. 10 years later have not change yet.

This is a clear indication as to inter-racial inequality distribution in income. |* Table 6. | Gini coefficient | | | 1996 | 2005/2006 | | African | 0, 66 | 0, 63 | | White | 0, 55 | 0, 56 | | Coloured | 0, 56 | 0, 59 | | Asian | 0, 52 | 0, 57 | HOW IT CAN BE ADDRESSED i) Education and training

Education is aresponsibilityof the government in so far as the provision of infrastructure i. e. training of teachers, building of schools, providing a well-structured curriculum and learning materials. But attending to the regularly attendance of learners is the responsibility of the parents. As previously indicated a great shortcoming in the labour market is that of skills. School system adopted the OBE Curriculum to make the school system more relevant to the economic conditions domestically and more competitive to the global economy. But the implementation of OBE implies theteacher/learner ratio of at least 1: 25 whereas in reality it is on average 1: 40, making the school system ineffective.

Democracy also created a liberal education system, which undermines the discipline, which also is necessary for successful education. Therefore government spending on the school system should improve in order to address this shortcoming in the education system so that the skills needed to curb unemployment are provided. ii) The Skills Development Act, 97 of 1998 aims to develop the skills of the labour force by increasing investment in education and training in the labour market and to address the skills shortages. iii) Government intervention AFFIRMATIVE ACTION The composition of the population is not uniform withrespectto race relations and cultural issues.

To allow these issues of race andcultureto take its own course is a recipe for disaster therefore government intervention to engineer a system that addresses the economic inequalities. Because unemployment, poverty, poor education and low social status work into the hands of social issues such asracismand cultural incompatibilities. To alleviate poverty, unemployment, poor education, a new system of affirmative action must be implemented in order to get a more equitable distribution of positions in the labour market i. e. targets to creategender equality, racial equality and cultural equality by means of affirmative action. BASIC CONDITION OF EMPLOYMENT

This act, The Basic Condition of Employment Act, 75 of 1997 is to advance economic development andsocial justiceby establishing and enforcing basic conditions of employment. D. ADDRESSING THE BALANCE OF PAYMENT DEFICIT INTRODUCTION An imbalance in a nation's balance of payments in which payments made by the country exceed payments received by the country. This is also termed an unfavorable balance of payments. It's considered unfavorable because more currency is flowing out of the country than is flowing in. Such an unequal flow of currency will reduce the supply of money in the nation and subsequently cause an increase in the exchange rate relative to the currencies of other nations.

This then has implications for inflation, unemployment, production, and other facets of the domestic economy. A balance of trade deficit is often the source of a balance of payments deficit, but other payments can turn a balance of trade deficit into a balance of payments surplus. The two main components of the balance of payments are the current account and the financial account. Therefore the two basic deficits that can occur in the balance of payment are a deficit on the current account and a deficit on the financial account. When there is a deficit on the current account then imports exceeds exports and when there is a net capital inflow that exceeds net capital outflow then there is a deficit on the financial account.

The question however is how will the deficits be financed. DEFICIT ON THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENT Action to reduce a substantial current account deficit involves increasing exports or decreasing imports. This can be accomplished i. e. to promote exports in the following ways. (i)Keep domestic cost of production in check e. g. the demand for higher wages must be controlled. The relationship of the governments with labour unions must be of good standing so that policy can be worked out by government and unions for agreements to keep wage demands and inflation in check. (ii) Assist potential exporters to find international markets, and subsidize some of these costs. iii) Allow or engineer a depreciation of local currency against other currencies, thereby making exports more competitive. (iv)Implement import restrictions i. e. tariffs and quotas. Adjusting government spending to favour domestic suppliers is also effective. Less obvious but more effective methods to reduce a current account deficit include measures that increase domestic savings, including a reduction in borrowing by the international government. When the country experiences a financial account surplus it can use such surplus to finance the deficit on the current account. This means there is a net inflow of foreign capital. DEFICIT ON THE FINANCIAL ACCOUNT OF THE BALANCE OF PAYMENT

An imbalance in a nation's balance of payments financial account in which payments made by the domestic country for purchasing foreign assets exceed payments received by the country for selling domestic assets. In other words, investment by the domestic economy in foreign assets is less than foreign investment in domestic assets. This is generally not a desirable situation for a domestic economy. However, in the turbulent world of international economics, a financial account deficit is often balanced by a current account surplus, which is generally considered a desirable situation. If, however, the current account does not balance out the financial account, then a financial account deficit contributes to a balance of payments deficit.

ACTIONS TO REDUCE A SUBSTANTIAL FINANCIAL ACCOUNT DEFICIT INVOLVES INCREASING FOREIGN DIRECT INVESTMENT The following actions have already been taken: a) Proctor & Gamble invest R200 million in new SA plant. With annual revenue of more than US$ 83 billion, Proctor & Gamble is considered the world's largest consumer goods manufacturing company. The investment in South Africa is considered to be a huge psychological victory for SA, says Business Day, in light of the current economic crisis. (Business Day 11 March 2009) (b)New trade infrastructure programme to boost business in Africa International financiers and developed nations have committed $1. billion to a new trade development programme that will open up business opportunities in eight African countries, including South Africa.

(Business day 7 April 2009) (c)Mergers and acquisitions (M) in 2009 South Africa is expected to fare better than most countries when it comes to mergers and acquisitions (M) in 2009 with the region being well shielded from the turbulent global economy, according to merger market's South African M&A Round-up for 2008. (Business Day 20 January 2009) (d)2010SoccerWorld Cup South Africa is holding the 2010 Soccer World Cup, which is a tremendous boost for foreign direct investment and employment and also for future ventures.

In this manner we must promote foreign direct investment in South Africa to create a surplus on the financial account of the balance of payment. E. SURVIVING THE CURRENT WORLD ECONOMIC CRUNCH / TURMOIL INTRODUCTION GLOBAL RECESSION The Global economy is currently in a recession, as we are made aware by many economists right over the world. There are declines in growth rates in many countries in both developed and developing countries. Most notably the United States CAUSES OF GLOBAL RECESSION " In 2008–2009 much of the industrialized world entered into a deep recession sparked by a financial crisis that had its origins in: i) Reckless lending practices involving the origination and distribution of mortgage debt[2] in the United States. 3][4] ii) Sub-prime loans losses in 2007 exposed other risky loans and over-inflated asset prices. With the losses mounting, a panic developed in inter-bank lending. iii) The precarious financial situation was made more difficult by a sharp increase in oil and food prices. iv) The exorbitant rise in asset prices and associated boom in economic demand is considered a result of the extended period of easily available credit, inadequate regulation and oversight,[6] or increasing inequality. v) As share and housing prices declined many large and well established investment and commercial banks in the United States and Europe suffered huge losses and even faced bankruptcy, resulting in massive public financial assistance. i) A global recession has resulted in a sharp drop in international trade, rising unemployment and slumping commodity prices. Social unrest and political changes have appeared in the wake of the crisis. ”[11] HOW FAR HAS SA WEATHERED THE RECESSION Prudent regulation of the financial sector may have partially shielded the South African economy from the vagaries of the global financial turbulence until now. At the same time, it is the combination of fiscal austerity and prudent regulation, among the hallmarks of GEAR, which have so far helped cushion the country’s economy from the global economic turmoil. The financial services sector, despite its integration in the global economy, has so far remained resilient.

The same applies to the agriculture and construction sectors, which continue to witness growth. WHAT CAN BE DONE TO WEATHER THE RECESSION MONETARY POLICY A likely immediate outcome of the current crisis is a cut or a series of cuts in interest rates by the South African Reserve Bank, which has raised them by five percentage points since July 2006. As household debt balloons locally, economists forecast further rate cuts up to 300 basis points. The hope is that rate cuts will spur consumer spending again and thereby increase aggregate demand and aggregate production. Thus increasing employment and decreasing unemployment. But interest rate cuts alone will not be adequate to revitalize the economy.

According to Neva Makgetla, the lead economist for research and information at the Development Bank of Southern Africa, job losses are a certainty in South Africa, but the scale will depend on the nature of the global recession. FISCAL POLICY An appropriate government intervention would be to focus more systematically on creating employment opportunities on a larger scale. That requires measures to strengthen the efficiency of the economy overall, especially through enhanced infrastructure. It also requires more consistent institutional support and resourcing for employment-creating activities such as agriculture, manufacturing, personal and private services and construction. INFLATION Keep domestic cost of production in check e. g. the demand for higher wages must be controlled.

The relationship of the governments with labour unions must be of good standing so that policy can be worked out by government and unions for agreements to keep wage demands and inflation in check. EXPORTS/IMPORTS (i)Assist potential exporters to find international markets, and subsidize some of these costs. (ii)Allow or engineer a depreciation of local currency against other currencies, thereby making exports more competitive. (iii)Implement import restrictions i. e. tariffs and quotas. South Africa should streamlineimmigrationand taxation policies to create a more attractiveenvironmentfor foreign investors as an intervention in the current crisis. This would lay the groundwork for future growth.

While the taxation issue is debatable, some analysts believe that the current taxation regime is actually pro-business; the immigration system is generally seen as cumbersome and makes it difficult for skilled foreign nationals to settle in South Africa legally. However, over the past five years, the Department of Home Affairs has been addressing this issue partly by issuing quota permits to categories of skilled foreign nationals even before they got employed. CONCLUSION The economic forecast for South Africa is that the global recession may not have such a big impact on our domestic economic affairs and that we should survive the current economic turmoil provided that we keep inflation in check, foreign direct investment be promoted and stimulate exports.

On the political front we hope that the transition from Mbeki government to a Zumaleadershipwill have a positive impact on the economy as a whole. Greater political discussion pursuing an economic perspective might stem political instability as far as wage negotiations is concerned. The stabilization of the cost of labour on the GDP will be a tremendous boost to the economy. It is my hope that the spirit of new leadership will create a new dimension in the development and stimulation of the economy of this country South Africa. BIBLIOGRAPHY 1. Bade Robin and Parkin Micheal (2008) Foundation of Economics 4th Edition. New York: Addison Wesley 2. Blanchflower David G. & Mathew J.

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