

Article I. Opening Speech by the Director-General, Tshediso Matona Research to support a Critical Growth Path

Published: 20 October 2006

Colleagues, distinguished guests, fellow members of the TIPS board, it gives me great pleasure to address you in a forum that has over time become an important landmark in the South African economic research calendar. The DPRU/TIPS forum has been running for ten years now, and judging by the caliber of the speakers and the papers being presented, it will no doubt run for many years to come. It is an invaluable input into the discourse around economic policy in this country.

More so than ever, this year the topic for the forum is pertinent, practical and timely. A detailed investigation into “the concept of accelerated and shared growth and, specifically, how the poor are to be engaged in development” comes at a critical juncture in our country’s transformation history.

Thankfully a good foundation has been laid: macroeconomic stability has been achieved and significant growth momentum established. However, we are all too aware of the risks and imbalances associated with the nature of the recent growth episode. Strong consumption with a high import content, high household debt levels, a large and growing current account deficit, an ailing productive sector – all beg questions of the sustainability of our current growth trajectory, especially its effectiveness regarding unemployment and poverty.

Since 2000, we have witnessed job creation, but **the dti** and government at large are under no illusions. Unemployment remains unacceptably high at approximately 25% or 40% (depending on the definition you use), labour supply continues to grow strongly in relation to labour demand and the skills mismatch persists. Then there are various key questions: What impact do the jobs created have on poverty? Are those jobs sustainable given the concerns raised around the nature and composition of the current growth episode? What is happening to income inequality? I will leave it to you to answer these questions over the next three days.

In the simplest terms, the burning reality that we all face is that our current and historic levels of economic growth are insufficient to meet the needs of South African citizens. For too many, the dignity of work and the entitlement of a minimum standard of living remain a vague and distant ideal, disconnected from their actual existence. Government, at the highest levels, is fully cognisant of this reality. The fact that in 2005 the President established ASGISA and located it high up in the executive arm of government is testimony to a deep understanding of the urgent need to grow the economy and expand economic participation.

The average annual growth target of six percent by 2014 is ambitious. The specific nature of the target, which is derived from the goal of halving unemployment and poverty, has forced us to focus our minds. What are we to do to accelerate growth and employment? The ASGISA document begins to flesh out the various strategies and interventions designed to deliver six percent average annual growth and forms the “how?” of the strategy.

We are continually strengthening the link between the “what?” and the “how?”. In this regard, Government is developing a ‘Critical Growth Path’. The function of the Critical Growth Path is to map out the chronological sequence of events and government interventions that will lead to the attainment of ASGISA targets.

Strengthening the link between the means and the end will assist the State to play a more assertive role in ensuring structural change in the economy. In other words the Critical Growth Path will highlight key interventions and key decisions required en route to 2014. It will also play a vital role in working through the timing, sequencing and resourcing of interventions.

It goes without saying that a Critical Growth Path would need to be supported by extensive empirical evidence. **the dti**, via the Economic Cluster of Departments is working with a range of researchers such as those from the IDC to model a growth path. That exercise locates the macro growth target as well as various assumptions around the global economic environment, and seeks to uncover the sectoral sources of that growth.

Further to the work of the IDC, in fact in symbiosis with that work, is the ongoing “employment scenarios” work stream currently being run by the HSRC.

The effort to support decision making with empirical evidence is not limited to the Critical Growth Path. On the contrary, there is within the Economic Cluster a renewed appetite for bolstering all policy-making with quantitative and qualitative evidence. For instance, one area of Cluster work that lends itself to evidenced-based policy making is Industrial Policy. Of course, it is anticipated that the National Industrial Policy Framework will feature prominently in the Critical Growth Path. However, the NIPF has relevance outside of the Critical Growth Path as well. The NIPF is designed to be dynamic and shift with changes in the economic environment. It is obvious how important high quality research will be to ensuring that Industrial Policy is responding to the changing reality in the economy and that the iterative relationship between policy and reality happens with minimum cost and time lag.

With a view to supporting the development of the Critical Growth Path in the short term, and developing the Economic Cluster's in-house capacity for evidence-based policy making in the medium to long term, **the dti** recently convened a meeting of all Cluster modeling experts. The idea is to apply an integrated approach to the Critical Growth Path that makes full use of all available capacity and to adopt the same approach in the future for all Cluster work. What emerged from that meeting is that current economic modeling capacity is somewhat stretched and fragile (it normally resides in one or two people per department). Thus a capacity building exercise in evidenced-based policy making and modeling in particular is of the utmost importance and the Economic Cluster will be developing a proposal in this regard. In going about it, we hope to draw heavily on the expertise in this room.

This brings me to the role of the DPRU/TIPS forum in supporting research for the Critical Growth Path towards 2014 and beyond. Taking a medium term view, the institutions represented here will hopefully play a key role in supplementing existing efforts to build evidence-based policy making capacity, such as the bursary scheme now offered by **the dti** to post graduate Economics students.

Finally, the DPRU/TIPS forum organizers will need to be vigilant in ensuring that the feedback loop between research, policy and economic reality is constantly shortened and strengthened. This will require closely guarding the relevance of the forum's agenda and the caliber of the forum's participants to maintain the current high standard.

I thank you.