

## **Sunday Times panel discussion on AsgiSA. February 2007**

Moderator - Mariam Isa

Panellists:

Duma Gqubule

Réjane Woodroffe

Haroon Borat

Lumkile Mondli

Neva Makgetla

Goolam Ballim

Mariam Isa – I thought what we would do, we would just kick off with each person – you all know the question, the main theme of the debate: Is AsgiSA a necessary and sufficient condition for the government's targets of accelerated growth and shared development, which aims to reduce poverty and halve unemployment. I thought that we might give each of you a chance to speak for a maximum of five minutes, just outlining your views on this topic. I am sure you've given it some thought already. After that we'll follow up on common threads or issues where people disagree. Duma, would you like to start?

Duma Gqubule – OK, just to start off... I think, before we start this debate we have to look at the context of the country that we're living in. Lest we forget, we live in a country where 50 people are murdered every day, we live in a country where 1,000 people die of HIV/AIDS every day, 2m people have died of the epidemic since its inception, and life expectancy of the average South African has dropped alarmingly to about 50. At the same time, we live in a country where 8m people are unemployed according to the expanded definition, another 4m are underemployed in the informal sector: they earn less than a R1,000 a month. If you add the 8m and the 4m, together you get 12m people who are either unemployed or underemployed out of the economically active population. If you look at the people who are actually lucky enough to work, 75% of them earn less than R2,500 a month. So, in a nutshell, this is the picture I want to paint against the challenges that we are faced with. So if you look at AsgiSA, in my view AsgiSA is a very tame response to the huge developmental challenges that we have as a country and by the government's own admission, we do not have... It is not a comprehensive development strategy. At the same time, given our huge unemployment strategy, it is inexplicable, difficult to explain why we do not have an employment strategy for our country. And finally, I think the tame response in the form of AsgiSA is a reflection of a lack of leadership from the side of government at the very top. It's a sign of a lack of a vision that needs to unite all South Africans behind a common goal, and it's also a lack of ambition from the government to get all stakeholders to working together towards a common goal. To talk about the lack of vision, I'll just leave it there for now. But the last thing I want to say, Mariam, is that... What I want to put forward is that there is a template for development that we've seen in East Asia and in some of the Northern European countries, and my view is that if we combine the elements of those two templates, we can achieve, we can address and confront all the problems that we have in

the country. And the template shows how you can rapidly upgrade the standard of living of the population in twenty to thirty years, and then after thirty years you tend... What's the word? You tend to have conventional economic policies in...

Mariam Isa – Thank you very much. I think we'll just carry on around the table. Réjane, would you like to go next?

Réjane Woodroffe – Sure. I think that AsgiSA does have many strong points. You know, I don't... I think it's a good start. There are many things that need to be fleshed out, things that... Key things that I think have been left out of AsgiSA. But I think that in terms of the way that the champions in AsgiSA, the taskforce that was put forward for AsgiSA, have a level of seriousness, that really was very welcome. I think even the Harvard papers giving... The Centre for International Development at Harvard was involved in it. Meanwhile we have many very talented economists and academics... Locally I think there was something to be added from having an international perspective. Reading those papers, there are comments that we can take on board from the papers that are outside, maybe outside of the forest and kind of looking at things more objectively. So, I think that having supplemented the whole AsgiSA debate and discussion, that was very, very positive. And areas that I think that are a key concern for me that are not part of the binding constraints... We spoke about it a little bit earlier, when we were having our casual discussion, is that I think that crime is a binding constraint to growth and development in the country. And I think that that has to be addressed. There are some interventions that have been positive, that are happening but there are some areas of crime, that maybe when we go into more specifics, I'd like to raise in terms of interventions that we can look at, and that I think they're very important when you look at the country's economic growth and the international interest and foreign direct investment we could have in the country. Then, also I think in terms of interventions that are... have been omitted or haven't been dealt with, I think, adequately, is our rural development policy. At the last census, at the last census we had 40% of South Africa still lives in the rural areas, and quite frankly, whether we have 5% economic growth or 6%, or 7% economic growth, it's not going to reach many areas out in the far deep, rural parts of the country. People are just not going to participate in the growth. I mean AsgiSA *shared* issue, the way that AsgiSA seems to be focusing on sharing, is on increasing employment. And of course that is a way to do it and we will share growth if we increase employment, but there are other areas - the first and second economy, I thought was very important and very welcome - looking at South Africa's informal sector, how small it is, and what an outlier it is with other developing economies, shows us that the second economy is a key area that will need very important, specific interventions. Elsewhere, anywhere in the world, whether it's Africa, Latin America or Asia, 40 to 70% of the workforce is absorbed by the informal economy. In South Africa it's 16%. And then of course there is the apartheid legacy, Black business being illegal... I am going off the point a bit, but you know, that is a very, I think, key insight in looking at what you do to bridge the first and second economy to ensure shared growth -and, as I said, our service delivery in the rural areas. There are omissions. The other thing that concerns me is on the infrastructure development side... Of course, when an enormous amount of money has been set aside for infrastructure development, the one thing that concerns me is that

because productivity growth has been slow in South Africa, I wonder, I worry about white elephants. I worry about white elephant projects, and what it could mean to the economy if we have enormous amounts of money focused on putting up all these buildings, fences or roads, things that don't have a productive use or we are not using it very efficiently. There are other specific areas that I have comments on, binding constraints. But I think I'll stop there and we'll come to some more...

Mariam Isa – Thank you very much. OK, Haroon, would you like to go next?

Haroon Borat – I guess I'll give an input based on two key themes: one is to talk to the binding constraints framework, which governs, which is the rubric under which AsgiSA operates, which I think is really important. And the second one, which I've been on about for a while is the nature of growth, which is as important as the level of growth, and I'll come back to that. But, I mean, on the binding constraints framework, let's not forget that AsgiSA, in buying into, if you like, or in expressing... government, in expressing AsgiSA in the way it has, through this binding constraints framework, is implicitly talking to a specific, I would argue, widely accepted framework of economic policy, namely growth, right? Growth, and long run income growth is the route out of poverty, it's the route to reducing economic inequalities. There are big issues around that, but within that, therefore if you buy into that worldview of how to run an economic policy regime, it means therefore you need to identify the constraints on growth. That's very important. It's not just a rub around the head approach, it's about identifying the constraints and within that the binding constraints. And it is, as we heard, the Harvard approach, which is in a very real way being implemented. So, therefore one of the interesting questions we will ask ourselves, when you're investigating sort of the quality of AsgiSA, the policy framework, its impact and so on, is to look at those constraints, and ask yourself: are they dealt with adequately or are there glaring omissions in the constraints? And I think one of the glaring omissions for me... I'll start with the omissions and move down to sort of quality of some of the constraints, is the notion of crime. We've heard it before and I guess we will expand on it. I just think though that it remains a glaring omission relative to the others. It's a very exhaustive document, is the AsgiSA document, identifying the different binding constraints, but crime somehow, although I would like to believe that it was forgotten somehow, but it is an omission, and it is in a very real sense in econometric studies. The Harvard group talks about the role of crime on growth, the link between crime, inequality and growth. Very rich literature locally and internationally, and there is an important story there. So we can unbundle that, but I think the fact is, there is an omission on the constraints on growth framework around the issue of crime. Then I'll talk to two constraints, two of the constraints that are raised but in fact I think are either underemphasised or in the process of currently being operationalised, we going to see problems down the line. And those two are around the issue of labour market regulation and the skills issue. And both, let me sort of emphasise, both are on the agenda, they are on the AsgiSA agenda, there are lots of interventions, there are lots of sort of activities, some very good, some taking a bit longer than others. The issue though is whether in two to three years' time we look back on AsgiSA and we could argue that those two issues around labour market regulation and skills constraints have in fact been dealt with. And I worry about those. I worry about those because on the

one hand the regulatory issue involves implicitly a compact or an undertaking between social partners, and that is always difficult. Neva is smiling; she knows this, being on both sides of the fence. It's a very difficult issue but yet it remains at the nub of undoing one of the constraints on growth. On the skills issue, I fear that we've managed to identify the constraint, we've talked about the shortage of artisans, of engineers, we need though the cooperation between two key departments, the Departments of Education and Labour, and we're not seeing that. And that could continue for a long, long time. So the extent to which you've got institutional rigidity that's inbuilt across government departments that may hamper the delivery of AsgiSA, I think is a really, really important issue. A sort of final point on the binding constraints framework is I think we need greater clarity. We spoke about the East-Asian model; we need their clarity on the role of the state as a leader in economic development. There isn't enough clarity. We are clearly seeing a shift in emphasis away from... When last have we heard the word "privatisation" in a debate, right? There's clearly been a shift away from the privatisation model to one based on either public-private partnerships or the state taking a leading role development. We'd like to see... I'd like to see further sort of clarity, and further detail on that. The final issue is the nature of growth and I'll just talk to it very briefly. There is a very important link shown in international literature between economic growth, poverty and inequality, right? We know that growth, right? – is a necessary but not a sufficient condition for poverty reduction. And certainly it's the link between growth and inequality that's equally problematic. And that talks to the "S" in AsgiSA, it's the *shared* part. And I think we've underemphasised that to the extent that we've seen a massive increase or spectacular growth performance over the last four, five quarters is laudable, but the extent to which you've seen that in fact firstly reducing income inequalities or in fact having a significant long-run impact on poverty, is a huge issue. So, let's not just talk about the 6% as an absolute level, but let's talk to the notion of nature of growth, whether this growth that we're going to have is socially sustainable. I think that's a very real issue. I'll leave it at that.

Mariam Isa – Thank you very much. Lumkile, would you like to go next?

Lumkile Mondi – Yes. I think for me, really, AsgiSA has been a very big change. Having seen government, that we'd assume that through that debate around RDP that government would be bolder in the earlier part of our democracy, and then selling out big time to private interest and international interest. So for government to come up with the R410-billion package in addressing the constraints that people have been talking about, whether relative to currencies, efficiencies, skills, barriers to entry, I think it makes a bold move. And as we've seen that one of the biggest challenges has been around infrastructure in South Africa. Whether it's telecommunication, whether it's logistics – ports, rail, roads, where because of government binding itself to international interest and domestic interest, didn't see the need to invest in capacity, that now we're falling short. So, the intervention for me is very, very exciting because what it brings to the table, it brings the development of industrial capacity. So it's creating opportunity for us that for the inputs that are required for this huge investment, then there is an opportunity for us to develop local content, to develop local capabilities. And it's something that the state had completely lost and now back on the table where in terms of industries we've lost a lot of these

capabilities because of the huge focus on these issues that I highlighted earlier. Also what opportunities have been brought by AsgiSA is the realisation that, you know, we're living in a continent where access to education and hard skills, and access to employment opportunity is quite a problem, but somehow government believes that the conquerors or the colonisers - what you call the settlers - were the ones who were going to bring and drive this economy, instead of investing in Black people and making sure that those Black people have got skills and are given access to opportunities to get those hard skills that today we're falling short of. So, realising that mistake and hopefully through this intervention that are coming now on the table, whether it's an apprenticeship that companies now bring back to the table, or it's government trying to bring in more bursaries and support to tertiary institutions, it's a welcome move. But quite for me what's important is, if one looks at local content issues which AsgiSA is now bringing to the table, is the weakness of the state, that the state is extremely weak. For example, the state in South Africa at large sits with a lot of solid resources such as platinum – where we've got the biggest reserves - but it still leaves the control of resources in the hands of international investors who are sitting in London and are busy exploiting the resources of South African people, with very little commitment to the broader development of South African people and African people as a whole. So therefore there is a lot that government has to think about, that, you know, so that while it's bold for them to put the R410-billion on the table, and the possibilities that this is creating for this economy going forward? But within the economic policy framework, as well as lack of decisiveness and leadership on government level, where government ministers seem not to be fighting for a South African position, but fighting for their own. I am talking about lack of coordination, treasury pulling its own weight, and others pulling their own weight in different discussion. That lack of coordination is undermining a platform that you can build with this R410-billion to make sure that the issue of poverty, of inequality can then start being addressed because we've invested in infrastructure, invested in people, and the state has taken control of the key resources, such as the resources under the ground, because I want to argue that those resources belong to South African people and government that is busy dancing to international pressures on resources that are located here in this country, that no one can take away from them, unless our government agrees to that agenda. I think for me, we'll never be able to address the poverty and inequality. Thank you.

Mariam Isa – Thank you very much. Neva?

Neva Makgetla – Let me start by saying that everything I say here is in my personal capacity. The funny thing is of course everybody that I know would agree with everything that was said, that's been said so far. I think you get differences in emphasis and priorities that can become quite important, but I don't think anybody would disagree with firstly, as I think Duma said, what the key challenges are, and, secondly, that AsgiSA by itself still needs work. And that's why we're all there. I think though it's important to say what I would see as important in AsgiSA – we are now repeating ourselves – which is that I think the fact that it sets targets is really important. The fact that it sets targets not just for growth has served to focus government's mind. We all agree that the state has been weak. One of the reasons it's weak compared to, you know, this mythical creature that exists in East Asia... I think if didn't exist, we'd have to invent

them, it's a bit like Uganda, you know - you need a success story. Then everybody interprets it however they like, but one thing they did is prioritise and mobilise around some specific issues, and we haven't been that good about saying: here are some clear targets. I would say the difference between us and them is mass unemployment. They could focus on growth, and people tend to think we should just copy them, but in fact they could focus on growth without creating jobs because they started with a much more equitable society. In part because they did things like land reform and the sort of investments that the RDP foresaw through the fifties. So I just think that that idea we can't just focus on growth and that we have to set few targets that will make government officials and leaders focus their minds, has been incredibly important in AsgiSA. And the second thing is that it identifies some basic strategies, you know, - increase public investment, looking at specific constraints at central level, some cross-cutting issues specifically skills development, competitive currency, and some of those issues, I think it's been very important. I would agree, I think we would all agree, that within each of these boxes much more needs to be done. You know, and then it's not as it stands adequate to get... to achieve the targets we want. And we've said that I think several times. And I started to think where going forward more work is necessary. You know, one of the issues is that everybody, if you do just a straight projection on formal employment, unless you assume very low levels of labour force participation, you end up with a shortfall on employment creation, even at the current rate of growth. And it's been actually quite rapid rate of employment growth in the last couple of years. So we have to think of ways to - we've got this new word, you know, it doesn't exist in the dictionary - called massification. We have to massify the interventions that will, you know, create employment and reach the poor, which we sort of put loosely under the concept of second economy interventions, and there will be things like public works, but there will also be things like support for micro-enterprise, and I think, a key step there - and like I said, this is my personal view - is things like marketing co-ops and smallholders' schemes in rural areas. You know, it's also things that prepare people for the labour market, whether it's skills development or improving labour market information... And it's also the whole thing RDP assumed, which is if we improve services for poor people they will be able to engage better with the economy. Now, that hasn't happened the way we hoped and I think we need to understand why. But I think all of those things have to be studied. We are doing all of them, but if you look at the scale it's too small to achieve the objectives we set, and it's very hard for government to upscale because government, modern states are not really designed to engage with things like micro-enterprise, you know, which is why I think co-ops are important. Modern states have been designed to engage with people who are organised, who have a voice, ideally with business, but things like unions, and even churches and so on, but not with people sitting in Sekukuniland, you know, twenty miles from the nearest village, basically, you know? So those institutional things are a major challenge in those areas and I think we're grappling with them. In term of the sectoral issues that are there, I think we all agree that looking at specific constraints in sectors is critical, and I think one of the things we need to do though is to say we need a perspective on all the major sectors in our new economy as a whole, if we're going to adjust the constraints within specific sectors. So, you know, one of the key issues is - are we going to drive growth through manufacturing exports, which really does require depreciation. I mean, you know, people tend to misinterpret what the Harvard boys were

saying. They were saying: you should drive growth through exports and to do that you need to sustain a substantial depreciation. But I think that everybody agrees, you know, there are costs of depreciation that we also don't understand, and that's why it hasn't been driven that consistently. So, although we say we need a competitive Rand, we still need to do the work that says: But what are the costs, how would you do it? If we, for instance, build up reserves, what are the opportunity costs, you know? How do we pay for it, basically? And things, issues like that. So I think that, you know, I think that debate has to come forward as well, because it does affect many of the decisions at sectoral level, and that's what I'm working - sectors. And the final area where we're working very hard is we did inherit a highly fragmented state. You know, we inherited a state where effectively Cabinet can collectively tell the minister what to do, but it's not supposed to unless it's really clear something is going wrong. You know, and it's really up to departments to say to a very large extent what happens. Changing that is very difficult, you know? – because it does affect how people see themselves in their jobs. And I think that we shouldn't underestimate how hard it is in every country to coordinate government agencies. But the structures that we inherited were not helpful, and I think setting up things like Cabinet clusters and so on, has helped quite a lot, but it's an ongoing process to try and change that. And I am sure you'd say we should have started ten years ago, and it's probably true! But you know what? 20/20 hindsight always helps! I just want to say... Sorry, I am starting to respond to other people, but in terms of crime I am a little worried when we see it as a growth constraint. In a sense maybe it is a growth constraint. There is research that shows that at least for micro-enterprise, probably not for... This is again the Harvard boys... Internationally, the impact on business, by international standards the impact on business is not out of line, but at micro level, for micro-enterprises quite a lot of research is showing that it is very significant. But I mean, crime is not a growth constraint, crime is a blight on people's lives. And I think that this thing of discourse where we justify everything we do in terms of the impact on economic growth is actually a problem in itself, you know? And we should be dealing with these things not for me as part of a growth strategy but because of the effect it has on people when there is violence. And that's particularly true because, you know, despite the feeling one gets – and I have personally been hijacked three times – you know, that most violence takes place within the family, you know? And if we only look at the economic issues, we tend to lose track of those important kinds of crimes that devastate people, but that don't affect the economy directly.

Mariam Isa – Neva, I think you've just ran over your five minutes.

Neva Makgetla – OK.

Mariam Isa – So, I'll stop you there. Goolam, could you, would you like to give a brief summary of the response to the central theme, which is: Is AsgiSA a necessary and sufficient condition for accelerated and shared growth? - and people are just pin pointing what they see as the main issues.

Goolam Ballim – Perhaps I'll start by suggesting that, I mean, there clearly it is a move towards a development state, a far greater degree of intervention on the part of the

government. I don't think AsgiSA has been presented as an all encompassing, comprehensive programme. It seems to be, appears to be a limited set of interventions and to the extent that it reflects broadly survey responses from the private sector with regard to the challenges they face. I think its approach therefore can be considered a fairly healthy contribution. Perhaps I'd like to introduce - and also listening to the responses so far - is the global dynamic, the global dimension as to how we formulate a broad and sustainable response. To the extent that one of the matrix isolates employment, or unemployment, and the halving of unemployment specifically, as being a specific target. What AsgiSA perhaps doesn't quite take full cognisance of, at least explicitly, is the fact that over the last fifteen years or so you had for all intents and purposes a doubling in the world's labour force, with respect to India, China and Soviet economies participating in the world labour force. What that has meant or led to is almost the halving of capital/labour ratios. But there is also a variety of other consequences. Firstly - it's a global phenomenon and not just happening in South Africa - but claims to income from labour is declining, whereas the claims on capital is increasing. So labour share of income globally is declining. If you look at the United States, the private sector's claims to profits or to income in the economy is at its highest, and right now labour's share of income is at its lowest. And this is effectively what happens when you attach a variety of large emerging economies - I am not going to isolate China specifically - but there is a variety of examples of large emerging economies that are resource-dependent or resource-shy, high levels of savings, significant amounts of labour and cheap labour at that. It therefore creates a proposition when they're going to have a comparative advantage in manufactures. So AsgiSA needs to take cognisance of the fact that you have a situation in where round the world, where interest rates are low, labour is being commoditised. These is an elevated price is being ascribed to or being attached to labour. So high skills are becoming for more scarcer and therefore the disparity between high income and low income is becoming for more stronger. The idea, I guess is... There is also, there is the productivity dimension to this. China's attachment to the global economy, India as well, and the fact that labour can compete more effectively because of the IT revolution means that low level classes in India can more easily compete with labour in the developed markets. All of these dimensions are perhaps pushing towards greater productivity and also specialisation. So AsgiSA in its targeting needs to be unambiguous, needs to be clear in identifying areas in my view where we specialise. I would perhaps just use one example in my brief introduction to highlight areas where South Africa in my view is probably on a course for a major dislocation in terms of its output and labour, and that's the auto industry. If you look at returns on equity, if you look at returns on capital, that is the one area over the last couple of years where growth rates have indeed been negative, and that is precisely because of the participation of the new economies in the global trade dynamic, in the global labour force because of the high contribution of labour in the manufacture for example in autos. And perhaps there needs to be some specific focus with regard to a variety of sectors where that specialisation is naturally going to render participation, constructive sustainable participation for South Africa in a meaningful way. Perhaps I'll just close.

Mariam Isa - here have been some common themes that have come up here, and there've

been some divergent themes. Goolam has just introduced the global context, the problem of cheap labour worldwide and pointed out that this is something that South Africa has to deal with. And one thing that struck me though as we started, was that a few of you mentioned the issue of crime, and I actually wanted to mention that myself because from an international perspective, if you travel, the one thing people always say to you when you say you live in South Africa, you live in Johannesburg, is “Oh, my gosh”, you know? “What about the crime rate?” And that is a deterrent to... In my opinion that is a deterrent to investment and also to one of the sectors that government has identified as a potentially very strong growth area, which is tourism. Now, we do know that tourism is expanding in South Africa. Tourism is an area which can be labour intensive and will, you know, create many more jobs, but this has been the result of a period of improving perceptions overseas towards South Africa and even Africa as a destination. I just wondered, you know, it struck me that AsgiSA didn't mention crime and the fact is that crime has, according to the figures, has declined by 40% since '94. That's very impressive. But is the murder rate of fifty a day acceptable? The decline apparently slowed in the last year that we have figures for. Is this a sign that the clampdown on crime is starting taper off in any way? And I just would like to hear a little bit more on that issue from the rest of you. I think Duma wanted...

Duma Gqubule – I was burning to start. My view is that this debate is getting a bit too civilised. So in the interest of making it a little less civilised, I'll just say a few things here. On the issue of crime, this is the one area where I will not make sense, OK? But something that I won't express myself rationally, but what I want to say is that there is no way we can elevate crime to the number one priority of South Africa within the context of the growth strategy. Crime is dependent on so many things that would be the outcomes of the growth strategy, and unfortunately, I think, this obsession with crime is an obsession by a minority of our country, white people, whereas the major victims of crime are Blacks. So I would say that we cannot elevate crime to be the number one constraint, when 1,000 people are dying of HIV/AIDS a day. Have you ever heard FNB having a campaign about sorting out the whole issue of HIV/AIDS and making a real contribution towards arresting the declining life expectancy of our people? The issue of labour regulation, as someone who actually runs a business I really think AsgiSA looked at the wrong place. This business regulation, I do not believe, anyway, it's not something that you can't handle. I don't think it's a constraint on growth. If there are no regulations, it doesn't mean I will go out and hire someone. The same with labour regulations, I cannot understand as someone who actually runs a business, how you can say that our labour regulations are too rigid? India has got far worse labour regulations than we have, and they're growing at 8%, and Korea the same. And then the third issue is that I dispute that AsgiSA is ambitious. India is growing at 8% but [? -37:56] Sing recently said he is not happy with 8%, it's not going to solve their problems. He wants to go up to 10%, and they've got a bad fiscal position, but they're talking about R320bn infrastructure investment campaign. So I would say that AsgiSA is not ambitious enough, and just to quickly talk through the template that I was talking about, I think, in terms of the macro-economic framework, we have to prioritise production over consumption, we have to

prioritise redistribution. That must get back onto the debate. And the reason I am talking about this, is that there is always this assumption – we have, I have been opposed to tax cuts year after year, and every year we should debate this issue. Why do we give tax cuts to the privileged few, those of us who do not need the tax cuts? We have to accumulate physical capital much faster and investment rates according to this template must come in at what, 35%. And public investment has to increase to about 15% in my view from the current 6%. So AsgiSA is way below that. And generally if you look at those fast-growing countries, they spend 25% of their budget on capital formation. And we also have to accumulate massively in terms of human capital. Health – massive investments, and educational attainment at all levels.

Mariam Isa - Can I stop you right there? I just want to carry on. I'm sure that nobody would say crime is a number one binding constraint to growth in South Africa. I was just curious to how many of you felt that it was a binding constraint, and it does seem to be a general agreement. There does seem to be general agreement here that it's a topic that people mentioned. We're starting to... Duma, you also mentioned HIV/AIDS, and I am glad that you did because a thousand people dying every day is a very significant figure. Do other people here feel that AsgiSA should have mentioned AIDS as a constraint to growth? I'm just curious to know what your thoughts on that are.

Neva Makgetla – Can I just say something? My problem is this: There are two things - of course, by the way, I think AsgiSA did mention crime although not necessarily that... Secondly, I don't even remember if it mentioned HIV but it probably should have. My problem is, you know, if we're talking about government policy in general, then let's talk about government policy in general. To say AsgiSA has to include every element of development policy makes it very unwieldy. And I also think that I have a real problem with discourse which says major human problems in society should be treated as constraints to growth primarily, as opposed to problems that they are themselves. I mean, it's very much the economists justifying it by saying: actually we have to have consciences as well. But it's a form of discourse and rhetoric that I personally find, you know, not that helpful. Can I just say one more thing about crime since we're going on about it? I mean, I do think that the problem with the discourse on crime – and I mean we're having a whole round table on it, so I'd really rather not spend the whole time here talking about it, but the fact is the problem with the discourse on crime is precisely that it's so shaped by class and race, that it's very difficult to talk about it objectively. So, they end up as perceptions, because one of the issues is, I am sure you know well, is that in Latin America crime is probably worse than here marginally in some areas. And I mean, it's the same anecdotal thing. The difference is it's been going on there for years affecting upper class, so they take it for granted there and they take precautions, and they don't like it, but you don't hear this thing about saying, you know, the crime in Rio and Mexico City deters investment. At least I haven't seen it as a major issue. Here, because it's new, and because it's also a way for people to conceptualise what's going wrong after we got rid of apartheid, for people who were benefiting in some ways from apartheid, it's become a major issue of discussion. The problem is, having said that, nobody is saying it should not be a major issue of discussion and nobody is saying it's not a serious problem. It's just to say there is a problem because what happens is, as Duma says, the people who

articulate the problem are often seen as doing it in very specific ways for very specific purposes and elevating it above the suffering of other people, who are indeed suffering, in part because of the privileges who say they are suffering from crime. And if we can't find a way to manage that discourse, we end up with this sort of ludicrous obsession with FNB that we've seen in the last couple of days. We're like, do I care why they pulled the damn ads? You know? But that becomes the topic of discussion. And how can we force the President to use a specific phrase to prove that he's listening to us? I mean, who is "us"? You know? And it just becomes so impossible to have a national consensus about it if we keep using this kind of language.

Mariam Isa - OK. I think, Haroon, you wanted to say something, just about...?

Haroon Bhorat – Yes, almost reluctantly, because I don't want to talk about crime. I guess... I think, we were speaking earlier, so I'll repeat myself. There's been way too much heat and very little light in the discussion. I mean the notion of victims of crime is known. The fact that empirical studies show that there is greater representation of the victims' names if they're not African, right? - in media reports. They're always named, and noted and photographed if they're white and middle class. So, we're aware of that. However the data does show – investment climate survey from the World Bank shows that the four biggest constraints, number two and three are labour market ones: regulation and skills, and number one is crime. So there is data to support the fact. However, there are two discussions going on. There is one, FNB-famous historian–recently died kind of discussion, which is about micro experiences of crime. On the other hand there is very important national trend data, which shows decline in...

Neva Makgetla – But that's a marginal decline, and as people pointed out experiences are cumulative, you know?

Haroon Bhorat – My point is, if you don't reconcile the two, you'll have a discourse that's actually of poor quality and doesn't move us forward. So I think that's... That's the... Keeping in mind though that we cannot dismiss the notion that crime, as a perception or as a real constraint, is feeding through in terms of its impact on investment... I mean, the data shows that, Neva.

Neva Makgetla – I'm not dismissing that, I am just saying that...

Mariam Isa - Can we stop for a moment? I think Réjane also wanted to say something.

Réjane Woodroffe – As Haroon says, you know, the statistics are showing - and that is what the President has been saying - is that there has been a decline, and so the questions needs to be – why was there suddenly a lot of concern coming up in the media? And it seems to be the last six months which we saw a lot of it coming up again, because they've gone quiet for a while, so the issue seems to be that because you have a Black middle class that now has a voice, and a Black middle class that is affected by crime more than just white people being affected by crime and being dismissed as "oh, it's another white person being affected by crime, so that's why we're not worried". We do

have a Black middle class that's being affected, and therefore it's coming out in the media again. And so we have to look at that. But then the other issue about crime is that it will be an outcome - Haroon spoke about the inequality issue and how that is linked to crime - and so it will be an outcome of AsgiSA. But I think in terms of just identifying it, accepting it and saying: these are the interventions, whether it be inequality, whether it be something specific like alcohol, which is one of my big issues. I've got absolutely no issue with alcohol as a moral issue, but it should be treated the same as cigarettes. The advertising that we have on alcohol, the taxes are far too low, and no labelling on bottles about foetal alcohol syndrome. And 70% of domestic violence is linked to alcohol. 50% of gun deaths, blunt stabbing instruments, 60% of that is linked to alcohol. And in South Africa there is absolutely no focus on how alcohol contributes to crime. It's one of the biggest issues. So, yes, we're getting to specific interventions here, but I think if in AsgiSA we just acknowledge that there are all these areas, we are looking at it, and that, you know, these issues are both going to be an outcomes and a specific intervention that's going to come from AsgiSA, I think it will go a long way to looking at perceptions from the international community and locally on the economy.

Mariam Isa - OK, thanks. I think I'd really like to move from this particular issue, but Lumkile, you...

Lumkile Mondi – There is a book around crime in the townships. And just the anthology about crime in the township, I mean, I can't overstate it, Blacks have been the biggest victims of crime, irrespective of class. If you go to townships, they're among the most violent because so on and so on.... I'm seeing, you know, the point about race and class is very, very important, that we mustn't lose the fact about crime. That, you know, the very few have got too much voice. And people who are victims of crime and poverty have got no voice at all, and as such, you know, we have to go beyond it and address issues of redistribution, issues of marginalisation and issues of poverty, because those are the ones that are going to...

Mariam Isa - Ja, I don't think that anyone would disagree that the high rate of violent crime is linked to inequality and poverty. However, I do think that crime does affect everybody and I think that the newspapers publicise that. I don't think the media's focusing on any one particular group in society.

Neva Makgetla – Except that they do. Count the column inches, the headlines.

Mariam Isa – Anyway, let's drop this for now, let's move on. Another issue, which has come up is labour market regulations. I think nobody would disagree that the main issue for South Africa is to create employment so that more people have jobs, so that poverty is reduced. We have an unemployment rate, officially, which has come down to about 25% from thirty something percent not that long ago, a few years ago. I forget the exact year. I thin it was 2003. However, we've got a few voices in a few independent thinking tanks, which say that crime is actually going to go up. Sorry, not crime, unemployment! I got stuck there! The Bureau for Market Research came up with a forecast that the unemployment rate is likely to go back up to 32% this year, which I find pretty shocking,

and I don't know whether I believe it or not, but I guess, you know, that is a big issue here and the question is, is AsgiSA doing enough to address employment? Are labour market regulations an issue? How can we create jobs in the manufacturing export sector? Are these particular issues, have they been looked at in enough detail, and are there enough action steps to address them?

Haroon Borat – Just to answer that one. I have a problem exactly the same as Neva. The starting point should be not whether it is a constraint on growth. It should be that we have to address it for its own sake. Whether it's HIV/AIDS, or crime, or labour market regulations, I think that should be the starting point of each discussion. Not what perceptions will be of us from external and so forth. But the thing of labour market regulations, I still have to understand, how, if you reduce them, number one it's going to result in employment. I don't think it's been proven and I think it can be dismissed out of hand. I just object to a lot of time being taken out in a huge discussion about our development strategy to highlight this issue, and including the crime issues, because I take them to be peripheral issues. No, crime is not peripheral, but I really do take the labour market issue to be peripheral. And I think Neva is a bit more eloquent than me on this one.

Mariam Isa – Thank you. Goolam, have you got a view on labour market regulations? And you mentioned that globalisation impact, and how labour is losing out globally. How do you think this is going to affect us, how is this affecting South Africa? What can South Africa do to address that, given its own concern about creating jobs?

Goolam Ballim – Perhaps I could start at the tail end in terms of what I would like see in terms of the labour market, and it quite simply is agility. If I am suggesting that there is going to be this trend towards specialisation, if integration of emerging economies into the global economy is really what is going to be shaping the winners and the losers, it's going to be injecting survivalist modes for industries, for firms, the capacity for labour to be agile, the capacity for labour or systems to reallocate labour across sectors, is probably in my mind the most important challenge in short and the longer term. So it's really a long-range as well as a short-range goal. But to the extent that there are frictions in the system, whether they are labour market regulations, whether they are ideas of injecting a minimum wage, I do think that that may be an insular, it may be a closed response. The reality is that even in the United States you've got a raft of legislation that is attempting to protect domestic workers. You've also just recently had the introduction of minimum wages or the elevation of minimum wages in the United States. That is a very national response in many instances. The fact that you now have around the world increasingly a shift to leftist, pro-labour, the protection of labour - against my opening remarks, where the share of labour's income in the overall pie is shrinking, I am not sure this is going to be constructive. That these additional layers of protection is going to inject that agility, that it's going to render workers more able to adapt and quickly move in integrating higher skills, more technology-centric, areas of employment. And I am not necessarily talking high-tech. I am even talking for example in the mining sector. The reality is that the emerging markets' attachment to the global economy has suppressed labour prices, has suppressed manufactured prices, but has elevated the returns on the prices of capital

and resource prices. There is an opportunity to harness that. So, for example, and perhaps I'm lending a particular industry example to us – how do we create the capacity to harness these higher prices, higher potential for returns in the mining sector, in the extractive sectors, but also in the capital equipment utilised to extract those resources? Because that's just one of the highest, an area of industry that is showing immensely high returns on capital. And ideally you would think that as a resource-rich county, South Africa should have an edge in supplying that capital equipment. So for me the debate is an end-game, if I am looking for an agile labour force that can be more fluid than it is, if the labour regulations, if the regulatory environment, if wages are an impediment to that, then it's a friction that I don't think is (inaudible)...

Lumkile Mondi – It would depreciate our exchange rate if the wages are governed.

Mariam Isa – Haroon, would you like to respond?

Haroon Borat – I am sure Neva will come here as well, maybe Neva can just talk a bit about what's going on in government in terms of dealing with the issue, research-wise and so on, but I was talking conceptually. When we say "labour market regulation", we need to identify what we mean. I think that's really important. There are three possibilities. You can be talking about legislative provisions, so the component of the Act, which says that you've got to provide notice when you want to fire somebody, four weeks notice, whatever, you know? So, all those different clauses in the legislation around dismissal, hiring, firing, the costs associated, that's one component of regulation. The other one is institutional efficiency, so in other words, how efficient are the institutions of the labour market? And in South African context it's the CCMA and the bargaining councils. Those are the big ones. Then some would say the Department of Labour, but essentially it's the institutions of the labour market – how efficient or inefficient they are. And the third component of labour regulation is the interpretation by the courts of law in matters related to the labour market. Now, we know the least about the third of those, so I'll leave that aside, because it's dependant on judges, traditions of judges, how they've been trained, and there's a whole discussion about that. But it seems to me that if we talk to the first two, the legislative provisions and the institutional efficiency, the argument is that labour market regulation is not a problem, probably correctly, although we need more research and evidence to talk to legislative provision... However, when you ask employers, as you do in an investment climate survey, what's the biggest impediment to growing your business, and they say "labour market regulation", I suspect - we don't have the research, I must emphasise - I suspect they're not talking about the legislative provisions, but institutional efficiency. The bargaining councils are under-resourced and they don't operate efficiently. The CCMA, the queues are incredibly long, right? Why people that are earning in excess of R300,000 a year should be allowed access to a public institution such as the CCMA is an issue. Why, for example, you find administrative law covering public sector workers that allows them to be, despite facing corruption charges, they are still employed after three years? Those are very specific issues around institutional efficiency. So I think if we talk to that component of labour market regulation, there is something to the regulatory issue. Final point: it's interesting, and maybe some sort of discussion with Goolam on the sort of

private sector side, is that there doesn't seem to be much evidence from the firms' survey side, from employers' perceptions, of wages being too high, which is very interesting. You often find that there are complaints about the institutional efficiency, sometimes about the legislation, but generally not about wages, which is something we haven't really almost taken into the debate. So, actually, you know what? – finally we can park the wage debate! It's no more about wage repression and that sort of thing. And I think that's really important about the labour market debate.

Mariam Isa - OK. I want to jump in at this point and ask how important... Haroon, you actually raised this issue. You said that there was a lack of coordination between the Labour Department and the Education Departments in terms of addressing skills and in terms of... which has been identified as one of the key constraints. Now, for people to be agile in the labour market, presumably they must have the skills to move around to get a job. And I just wondered what is the opinion here, generally, on the skills issue? How big a problem do you think it is? Do you think it's being adequately addressed by AsgiSA? Neva, would you like to start yourself there?

Neva Makgetla – No, it's not particularly my area. You know, I think, as many people here probably know, I actually think that of course we need skills but it's been vastly overstated as the cause of unemployment. Because it's just too easy to fall back on saying: you know, the problem with unemployed, it's either that they don't have what they need to start their own businesses or they don't have skills, and we don't talk about what is the structure of the economy that makes it... that means there are actually no opportunities even if they have skills and support. It doesn't mean we shouldn't do anything about support for micro-enterprise and for skills development, but does mean – and I think this is where AsgiSA is fairly clear about, that's not sufficient - necessary, but by no means sufficient. And too often it's treated as if it would be sufficient. And I think it's blaming the victim.

Réjane Woodroffe – When you're talking about skills, it has to be, as Neva said, about the structure of the economy, and Goolam picked up as well, is there looking at, you know, what are those specialised areas that South Africa should start to look at and say: We're going to develop a competitive advantage and these are the areas we're going to focus on. And so that has to be done in combination with the skills issue because we can't, you know, just say we need skills. Where do we see the economy going and what are the areas that are going to be champion areas? Are we going to say agriculture just isn't something to look at, or is it something that we look at in South Africa? Do we look at machinery, parts, do we look at chemicals, do we look at pharmaceuticals? These have all been areas that have been raised, and they all have their different merits, their pros and cons. And so, you know, there are areas that are low-skill labour absorbing, areas and industries that perhaps we should be looking simultaneously when we start saying what are the skills and what the skills out there, because the two, the two very importantly go together. And one area that has got a lot of coverage and where there is a lot of discussion on the menu, is the manufacturing area and the tradable area, and this brings you back to the title of one of the binding constraints that I have a problem with, and that title is “The level and volatility of the currency”. I think that should have been called something like

“lack of opportunities or lack of development in the tradable sector” because that is essentially a range of interventions that we can look at, that are perhaps less risky than just looking at the currency. I think it’s quite risky and we saw that, that the currency was pretty stable until, quite frankly, we started talking about the currency volatility when AsgiSA made it a binding constraint, and suddenly the currency got volatile. Now, I am not saying that was the reason, it’s just that it becomes very dangerous when you start looking at, and you start saying, you know, what is the level of the currency? Because it can be inflationary if you start talking about a weaker currency. We do have a Reserve Bank that has inflation targets and they can be painful, an adjustment process that has to happen if we start talking weakening our currency. There is a large input component in our exports and what would be more important to look at here, in terms of the tradable sector is to look at our trade policy. And in fact if AsgiSA’s ambitious plans on infrastructure come to fruition, gross fixed investment has a 50% higher import component than what consumer goods have. So, we’d have to get ourselves into a very dangerous territory when we just start focusing on the currency, what that level should be. And the more we talk about the currency’s level as being volatile, that’s when it seems increase the volatility.

Mariam Isa – Can I stop you right there? I was also going to bring this question up, so I’m glad Réjane has introduced it. The rand last year did depreciate after the AsgiSA blueprint came out, as a result of various global forces mainly. It depreciated last year against both the dollar and the euro. There was a point when it was at about six to the dollar, now it’s trading at just above seven to the dollar. It’s off the three and half year low last October of something like R7.8 to the dollar. But last year it also depreciated by around 20% against the euro, which is the currency of Europe, which is South Africa’s main trade partner. Now, do people here think that the level of the rand is a problem at the moment for exports?

Neva Makgetla – Yes, we talk to the manufacturers and they say it’s a problem still and will continue to be a problem. And we talk to academics and they say, if you look at any country that has succeeded in having major exports in manufactures, they’ve depreciated substantially over the long-term in real terms. Everybody believes once-off depreciation doesn’t work, but they have systematically kept their currency below the rate of inflation. So I think that there is definitely a feeling, if we are going to turn into our ideal from Asia, then we have to do something about the currency. There are other growth paths, you know? And I think one of the problems is the people who say “depreciate”, like the Harvard boys, are assuming the only growth path is export of manufactures. But I think the problem is we haven’t said: OK, if we’re giving up on manufacturing exports as driving growth, which has been a vision of this government since ’94, you know? – then you have to say, well, what is possible? What do we do about internally oriented growth, what do we do about other kinds of commodities, like what Chile has done with agriculture-based commodities and so on that can create employment and value-added and so on, where we have a comparative advantage even with a relatively robust currency? It might be second-best, but it might be what we should do. Where I have a problem is saying: Don’t do anything about the rand because of the impact on the economy, and of the problems, and Duma sort of implied that, is that everything you do

to transform this economy, there are costs. And if we only look at the costs and not the benefits, then we'll never change anything. So my personal view would be to say: firstly I actually don't believe in the inflationary impact because when you look historically, we always end up saying, the inflationary impact of depreciation is less than anticipated. By the way, the biggest fluctuations in the currency were in 2002, which is when people started, also in business, saying there is a problem with the value, you know, the fluctuation of the currency. So that was long before AsgiSA came in. But I do think that, you know, we need a better understanding also if we want to depreciate what we have to get there, what are the costs of that relative to the benefits, and whether there are alternative development strategies that might be possible, because as government you can't just say, sit on your hands because you can't figure out the way to depreciate.

Mariam Isa – Goolam, would you like to respond to that?

Neva Makgetla – Oh, Goolam can you respond to one other thing?

Goolam Ballim – Of course.

Neva Makgetla – Sorry, I just wanted to say this. What you've been saying about, you know, looking at large pools of labour elsewhere and the impact on labour generally. I do think we have to take into account that South Africa has a uniquely high unemployment amongst middle-income countries. So we can't afford just to say we won't do anything. We can understand that constraint but I don't think we can say that, you know, because world-wide employment rates are going down, we would love to catch up with a place like Argentina, where it was 16% at the height of the crisis.

Goolam Ballim – I think firstly with regard to the rand, I would like it if we highlight that it is a subtext to a development programme. I agree that a softer currency and one that gradually grinds would introduce a greater degree of risk-taking in the private sector. But ultimately, what we are trying to achieve is a high level of productivity in selected sectors, where we think we have a comparative advantage. The currency is a nice overlay towards allowing or solidifying long-range decisions. What we also need to appreciate is that two thirds of investment decisions emanate from the established communities, from the private sector, outside of the state. Their perceptions matter. Their perceptions on crime matter. Their perceptions on, as I said, long-range decisions are shaped in a sense by a global picture to the extent that capital can be deployed in any market, to the extent that there is a clear externalisation programme by South African corporates to expand their revenue streams, to introduce less volatility in earnings, less exposure to the local market. So it does filter, however real, but you know, I guess the question also overarching this age of crime, is what is their reality and how is their reality shaped by the political will, by the policy cycle. I do think, I concur, that the rand is, it would certainly be helpful if it was mildly softer, to the extent that with Standard Bank we see about a third of rand flow into the local market. So I can lend some science into this in suggesting that the volatility in the currency is unhelpful and it's reflected in the balance of demand for options, for protection, for hedging, and sometimes incorrect participation on the part of the private sector. So you have a sense where there is frustration, where the underlying business

model is being subordinated to trying to manage translation gains, or translation losses. So, you know, the things that we're doing, I submit though that with regard to currencies there is very little one can effectively do. Alan Greenspan rightly pointed out that the Federal Reserve has spent more money trying to forecast currencies and other economic variables, with the least amount of success. This doesn't, I mean it suggests that, you know, currency markets are an immense challenge, but not one that should be ignored or left to its own devices. So, for example, if the reserves build up, the macro-economic context is certainly encouraging. I do think there is perhaps another area of success that is helping to contribute to a more stable framework and towards diminished volatility in the currency, that perhaps hasn't received plenty of attention, and that is the variability of monetary policy, the volatility in the policy rate. And this is a function of a variety of factors: greater competition in the local market, externalisation of the economy, IT benefits, globalisation. But also the present regime of monetary policy that has helped to anchor more greatly inflation expectations, has helped to dampen growth in labour union costs. So, for example, you know, the upward cycles of the monetary policy in the overall monetary regime in recent years has generally declined. So you're not having as acute tightening over the recent episodes as you had previously. What it also suggests is that you have the potential for more nuanced policy, softer landings in the time of crisis, and also potentially less volatility in the currency because you have a growth dynamic that is likely to be more stable. Less volatility in GDP, less volatility in money supply growth, and all of these factors are what shapes, determines currencies. So I think that is also a contribution that will result in more stable currencies, that perhaps hasn't been identified. So traders would probably more easily still see the rand as being one that you can easily (inaudible) and attempt to profit from engineering how to produce a weaker rand. You know, with respect to, I guess, you know, the labour market, I'm merely trying to inject the idea into the debate that capital has been showing good returns. Commodity prices are where the returns are superior. And this may be more than just cyclical. There could be a structural element to this as well. You're very right. We have a very high unemployment rate, which is a really outstanding feature when you compare South Africa to a variety of other EM countries in the same sovereign credit space. There is a legacy. Ultimately, apartheid crippled black people intellectually. So, in that sense it almost perhaps also invites a unique response. And a lot of the sort of dynamics that we've injected into these binding constraints are more consequences from that simple fact.

Haroon Borat – I want to play devils' advocate as well, so I had two comments and then a question to the industrial policy people here, so it's a nice experience to be able to pose a hard question. But just the two points: One is on the scales just to make the point that I think we shouldn't - I mean I spoke about the DoE / DoL difficulties - but I think we shouldn't lose sight of the sub-component within AsgiSA, which is JIPSA, the Joint Initiative for Priority Skills Acquisition. I think there is a lot of work and activity going on there, that's trying to sort these things out. So the extent to which there is a very almost institutionalised role for skills promotion and reducing the deficit and the shortage within AsgiSA, I think we shouldn't lose sight of. So that JIPSA is in fact, as far as I understand, Neva, probably the only formal structure created out of AsgiSA. So I think we shouldn't lose sight of that. The second point was around monetary policy. So, if we're going to go the route of some sort of depreciation or softer currency to use

Goolam's softer term, does that then entail, or does it not then entail a question mark around the role of monetary policy or review? Because the Harvard boys have been arguing – and they are all boys, men, sorry - have been arguing for perhaps a wider range in terms of the inflation target. They haven't been questioning inflation targeting, but you know... So the extent to which they want greater flexibility in monetary policy is a very strong argument that comes out of their papers. I should say – subtext: the Harvard guys do not believe that there is a skills shortage in the country. So beware if we take everything they say as the gospel: It's not. They're clearly wrong on the skills shortage issue. And most of them are macro-economists. So we should listen to them when they talk about reviewing monetary policy or about that sort of issue. Then my question was to... Because I hear Goolam saying comparativeness, right? And that sounds a bit like the low-hanging fruit story. And Réjane mentioned that as well - we need to be more competitive in associated industries, Neva as well - but then the East Asia, so it's more just for debate, but then the East Asian model, my understanding, limited understanding, was that it wasn't the low-hanging fruit, it was the ship-building that never...

Neva Makgetla – It's the monkeys and the trees, my dear.

Haroon Borat – It was completely new industries that nobody had ever thought of and they pumped in state subsidies, we know the story, and boom – you had an international industry. One success out of twenty. Are the two comparable, or is there a preference of one over the other? I wasn't sure what the industrial policy message was that was being touted in terms of growth strategy.

Mariam Isa – I just wanted to pick up on one point: inflation targeting. I think there is a bit of discussion at the moment. Now, I mean, nobody disagrees with inflation targeting, or few people disagree...

Duma Gqubule – I do! Fervently!

Mariam Isa – OK, I caught myself there. It is something that...

Neva Makgetla – I think COSATU does in spades!

Mariam Isa – Anyway, it has...

Duma Gqubule – Mariam, this is the problem I have with this discourse here, is that the starting point is that we are 40% unemployed, according to the expanded definition, and how are we going to get rid of unemployment, how are we going to get to full employment? Now, we're focusing on specific issues, which are important, but they are not taking us... There is no suggestion as to how we get to...

Neva Makgetla – Let me just say it in a different way. My problem is that the core of AsgiSA, maybe this is my bias, is two things: It's the idea that we have to address poverty and unemployment directly, as a core priority; and it's industrial policy. And we're not talking about those things. We're talking about everything that isn't there.

We're not talking about what is there, and are those things important and adequate, and how can we understand them better?

Haroon Borat – Can you repeat that? Industrial policy and what is the...?

Neva Makgetla – Yes: second economy interventions. You know, that is the idea that we have to exclusively target poverty and unemployment. And my concern is that... You know, it's interesting, when you talk to people in government, their comfort zone is skills development and micro-enterprise. Because, like I said, that's when you give things to people. And it seems to me, when you talk to business, their comfort zone is macro-economics in the sense of monetary and fiscal policy and labour market regulation and crime. But, you know, we have to also all of us get outside our comfort zones and say: What is it about the way the economy is structured that actually causes mass poverty and unemployment, as well as slow growth? And how do we think about those issues in structural terms?

Haroon Borat – Hence my question...

Duma Gqubule – That's what I wanted to talk about, that what I want to hear, ja...

Neva Makgetla –...conversation we keep, like, every time we get to industrial policy, it falls off the table!

Duma Gqubule - I think the template I was talking about, and the key element of that template is that you change the structure of production. And when you go that route, if that's what you going to do, you do it through the expansion of industry, as opposed to services. That's what's been said. So, if you like in a country like Korea, the industry is 41% and services is 54%, which is far less than us. Now, if you going to go that route of expanding industry, in my experience, massive devaluations of the currency have preceded many of these strategies. It requires massive depreciation of the currency, and that's one thing we should talk about. Now, about the review of monetary policy: you've seen in Europe recently that everybody is expressing concern about the level of the euro and people, especially in France, where both presidential candidates are questioning the independence of the European Central Bank - In South Africa, should the Reserve Bank target the currency? If it targets the currency, in my understanding, the inflation targets in the framework break down. Should the Reserve Bank target the employment rate, should it target the economic growth rate? How can you... in my mind, it is a fiction that the Reserve Bank should target only inflation. And this is why I am fundamentally opposed to inflation targeting: Because it doesn't make sense. The majority of countries in the world do not practice inflation targeting. The fast-growing China, India, Vietnam, they do not have inflation targets. Why do we have inflation targeting? For me it is a system that we can implement when we reach full employment and when we don't... ja, when we have a different type of...

Mariam Isa – Would anyone like to respond to that?

Goolam Ballim – Are we not then again, not coming to your...?

Neva Makgetla – Oh no, don't worry about it. But I mean, let me just...

Haroon Borat – But I gave you a question, I was waiting for the answer: Which is it? The low-hanging fruit or is it the...?

Neva Makgetla – To me, there is a question, some of these things are also packages. So, the point is two things. Firstly, my only problem with learning from Korea is that they had full employment and they had relatively equitable incomes, and they also had special trade deals with the United States because of the communist threat, all of which meant that if they just focused on raising productivity, they didn't have a big unemployment problem. Our problem is that if you focus on the very high productivity sectors, we are not going to create employment with the few exceptions. So that's for me the big problem. My problem is actually to say: of course you need the high-tech whatever is there, some of them. But if that's all you do, we're not going to survive as an economy, because of the issues of crime and AIDS and all those things, that that needs to... So you need some way of saying, without actually losing track of some of those high-tech things, what do we do about the low-tech things that can create jobs fairly rapidly? My other problem is about the rand. We do have it, I would argue, we do have Dutch disease. If we don't want to do something about the rand, then we have to identify other commodity exports that can create jobs. And they are not as sexy for economists as, you know, nuclear power aero-space, or something or even auto. But if we could do like the Chileans had done and even export berries and salmon - well, we're not exporting salmon yet, but we're hoping to get there, I know! Both of which happen to be my favourite foods, so I am not objecting to it - but the fact is, you know, that's one route. And the other route is, you know, the low-tech supply of our own basic needs in the region. Can we do that in ways that will create employment, even if it's not wildly competitive if it's protected by the transport costs? But I think my concern is that for a lot of the high-tech stuff, a prerequisite is a reduction in the currency, if we're going to do it on a scale that will create mass employment. And we're not doing that much to reduce the currency as of now. You know, yes, there would be costs to that as well, and maybe we shouldn't do it either. But I don't think we have enough understanding of those issues.

Haroon Borat – But what about export processing now? That seems to be seriously back in favour as a sort of, alright?... Aside from the sort of blunt instrument like the exchange rate...

Neva Makgetla – Ja, but the problem is there are costs. As long as the rand is fairly high, the costs of these things are still high. And I don't personally believe that we can do enough in terms of providing infrastructure and so on to bring the costs down to a point where we're competitive. And maybe I'm wrong about that. That's again where we need to look.

Mariam Isa – Goolam, yes?

Goolam Ballim – Thank you. I think a distinction is necessary. While we may agree that there is not necessarily a skills deficit in South Africa, it doesn't mean that we should not aggressively focus on training and development. Training and development, and even at the elementary level - basic health, basic education - I think we've seen in a variety of places around the world, in India, in the villages, the extent of labour participation, particularly female labour participation, where the basic resources that are provided, the opportunities to participate are substantial. The second dynamic we have got to appreciate: we say exports. I'd rather like to suggest we have got to think about how we integrate into the global economy. Some emerging markets - and not to isolate China, but I guess that's where so much of absorption is taking place - over the last five years its exports have grown at 30%, up from 15% in the ten years before that. But its imports have grown very similarly, by around 27% over the last five years on average per year, from just about half of that, about 14%, in the ten years before that. There is a role to be played in your more traditional, unsexy industries, I subscribe. The extent to which South Africa integrates in that global supply chain, becomes part of the assembly function, will speak to how we shape the mosaic of our economy. And I really alluded to it at the beginning. Agriculture is in fact in vogue, in my view. The machinery that is employed in that industry, the machinery that is employed in extractive industries, there is a massive demand for that. If you look at Japan as an example, it is now the largest trading partner with China: 20% of its exports go to China. And it has found a new niche in a sense of machinery and capital equipment, supplying the beast that produces the trinkets, and toys and low-tech stuff. There has to be opportunity there. So both when we think of an export strategy, or that sort of language, it's maybe too traditional in the way those with the hands on the levers of capital think of, in terms of manufacturers, in terms of textile, about food and processed food. So, I wouldn't disagree with in that respect. There needs to be great interrogating on that subject.

Mariam Isa – Does anyone else have anything they want to add to that?

Lumkile Mondi – I think for me, you know, within AsgiSA, the whole framework around the investment programme revolves around what I said earlier, how to develop local capabilities, local content.

And within that you start having opportunities around your suppliers. Goolam was talking about global supplier networks. We've got a programme around developing the SMME sector, you've got a huge programme and all of these things are linked together. I think that where the problem has been, is around a disjuncture where if you look at some work around Ekurhuleni, the manufacturing study of Ekurhuleni and what firms were doing there: Lots of players, very small, highly competitive and export-orientated, the provision of things for domestic consumption. But they've got no economies of scale at all because they find themselves (inaudible) through our tariff programme. And with the support coming from the state and other players, they will enlarge their capabilities to be very competitive internationally, but at the same time introduce domestic markets. But because of the national policy, they find themselves having to survive somehow. So through AsgiSA it's now opening up these opportunities for these firms to start engaging with Eskom, with the Siemens and others to expand opportunities domestically. And what one hopes to see is that then the state starts becoming more involved with these

firms to create the linkage between these firms and parastatals. At the moment the linkage somehow became delayed. But taking this discussion further to agriculture, I mean, in agriculture we are seeing huge opportunities. Neva talked about berries, Macadamia nuts. There is fruit. I mean South Africa, our fruit are orchards in the Western Cape among the oldest – I mean some of them are around 25 years, 26 years. So there is a huge opportunity there. In terms of labour absorption, there are huge opportunities, but there hasn't been any state envelope. So your national policy starts talking through that. I mean, we're implementing some of these projects ourselves already, but we can massify them. There can be huge massification of them with the state coming to the party through an envelope to support the industries because they are committed globally already, but they don't have the scale. So it can create a huge scale and at the same time absorb quite a number of people, though the jobs are going to be seasonal. So, there is a platform, AsgiSA is providing that platform. But we just need now to link all the players together so that we can have a vision that's united, not piecemeal programmes coming from government and from private sector, and DFIs like the IDC so that the whole programme is coordinated, is intertwined, and firms do have support when they need to, so they can compete globally.

Mariam Isa – I think this is an issue that Haroon touched on as well: the role of the state not being clear. Would anyone else like to respond to this? Goolam, would you like to go first?

Goolam Ballim – If I could just maybe complete the circle... You asked, posed the question earlier about labour costs and also institutional inefficiencies. I think that there are some things that firms do well internally, and they will allocate human resources to where they see a need for it to be done. Minimum wages I don't think are a problem. At Standard Bank, we've elevated our minimum wage to about R3,000 per month, which I think is certainly superior to what many others would consider a base level. The institutional inefficiencies are substantial. Engagement with the Labour Department at a very practical level, attempts to, for example, give momentum to learnership programmes when there is funding that sits within for example Labour Department. To extract that is immensely hard. So, to the extent that that loops back into one of the binding constraints, which was efficiencies of state or state efficiencies, I would argue what worries me is that over the short term we've highlighted government incompetence as in getting friction in the system. Now you have an overlay with regards to the succession debate, perhaps also injecting government impotence in terms of giving thrust to policy and policies, and giving traction to what the policies aim to achieve. I think over the short term there is likely to be significant, in my opinion, then also clouding some of the more substantial debate.

Lumkile Mondi – For me one of the challenges around the role of the state is generally the linkage between the mineral resources and the development of an industrial base, where the state through the process - I mean, the state has been under a lot of attacks around the conversion of old mineral rights to new ones. But what the state didn't do well is that, you know, they did not take note of that pressure they were having. This was the pressure of an interest group that wants to extract rent at the expense of South African

people. One would have expected the state to really try and use its hand to take away some of these rights where they belong. If we talk about platinum resources, they belong to baTswana people – because it was located there. So in this case with the government, through the permit system must start taking over some of those assets., because by taking them back, then we can start creating global linkages with firms that are very keen to develop South African capabilities. At this juncture, the partnerships, the partners that we've got, they've got no interest at all, but their interest is about extracting as much rent as possible, and extract to maximise. So their whole interests is being driven by greed, is driven by firms seeing that their huge communities in London, in America, are not enjoying the returns that they should be enjoying because the government is too slow to convert. So they are not talking to the interests of the central government, in terms of the unemployment, the uneven distribution of income, etc. So for me, for the state to get that right would be by saying, you know, we going to give a conversion but that we're expecting the other layers coming through: that is you beneficiate domestically and you support us through supporting local downstream industry by offering a competitive price, not charging us import parity prices as you are doing at the moment. And the state has left those levers to the market. And the market is shouting, it's got a voice. It's shouting about, but we're not doing what we should be doing for South Africa because those are the areas where we've got strength because resources are here. Nobody can take them away from us, they are here. You can take them away only when you have got a permit to mine. It's the debate that we had: People are saying, why should the state nationalise when we're seeing a huge change globally where indigenous people are taking back what's theirs and trying to make sure that indigenous people benefit from these resources. And that's the debate for me. That's very sad South Africans are all keeping quiet about it.

Duma Gqubule – I do agree with Lumkile about state ownership of strategic sectors. I would like to limit it to elements of the financial sector. But anyway, the main issue that I want to talk about is the whole issue about the capacity of the state. Now, in my experience, working in government recently, is that the biggest problem for the state is that there are not enough people! - you wont believe that. And if you look at the only database on this issue from the ILO, if you look at government employees to population ratio, South Africa's is one of the lowest anywhere in the world. And if we have to benchmark against other developing countries, we would have a public sector of double the current size, which is 3 million people, and if we benchmark against the developed countries, with 7.8 government employees as opposed to public sector employees per thousand people, you would have a public sector of 4.5 million people. Now, something that really epitomises the problem in the public sector to me is the Department of Health. Now, if you look at health policy, we've had 7 million people, new people, using the health system in our country. At the same time per capita spending on health has declined. At the same time we've slashed the number of employees working in the health sector. We produce only 1,700 nurses every year and there is huge shortage of about – documented – 50,000 plus shortage of workers in the health sector. At the same time we've had six new AIDS Bills in the public sector while public sector spending is going down. Now, I ask, how can anyone in the health sector give the service that they're supposed to give to the society when they're operating under those conditions? And I've

got anecdotal evidence throughout government of what is happening. Just two quick ones, Mariam. I worked in one department, the Department of Transport, maybe I should just say. Thirty people above director level and 120 people as administrative assistants and everybody. Now the 30 people are supposed to drive the whole country's national transport policy. The woman I was reporting to, she was 30 years old, she was a Rhodes scholar. On the face of it, there was no skills problem in the Department of Transport, there just weren't enough bodies. The last one I would like to talk about is that we have this thing called Employment Equity Act, and we put – including Neva - six part-time commissioners to run with this, implement it! You can't do it! I sat in a presentation of the chairman of the Employment Equity Commission, and I said - and there was a presentation from Canada, which was telling us what is happening in Canada. They have huge resources in Canada to monitor employment equity. They've got bodies, inspectors, everybody to make the Act real. So I asked the previous chair, I said: Why don't we have that situation in South Africa? We need it more than the Canadians. And she said: look at us here. There are six of us, we have five meetings per year. How can we monitor and implement the Act? So what you had in that situation was the Department of Labour doubling up as commissioners to solve the capacity problem. So, really I believe strongly that we have to significantly repair the damage of the last decade and increase the public sector. I would like to see the size of the public sector as a percentage of GDP, increase to about 35 to 40% in the medium term, and perhaps start declining again. And this issue will address the whole issue of redistribution. And I just feel that today we are talking about inequality, we are not addressing the real issues about... I believe strongly that wealthy, I mean, South Africans in the first economy, we must pay some of the cost of creating a more equal society. I cannot expect to receive tax cuts every year while I have to spend those tax cuts on members of my extended family who can't afford university education, which is totally unaffordable and it's for the rich. So what we have to address in South Africa is how can we use the state to redistribute resources and arrest income inequality. And I don't see that in the debate in South Africa.

Haroon Borat – Yes, I mean, so you want to be controversial? Basically, the one line I could take away is that your solution for redistribution is to have a bloated public sector.

Duma Gqubule – I've just said that it's too small, according to statistics...

Haroon Borat – I think the danger is that if you start looking at what's an efficient size of a public sector - that's an extremely dangerous route, you know. I guess the sort of facetious comment to that as well: The solution to the problems in Home Affairs is to hire more people for your ID documents. That's just a frightful scenario! Now you have 10 inefficient people rather than two! I think the extent to which it's a numbers game, we need to be really careful about. However, it's an important issue about, because the one-liner bundled in your conversation doesn't truly represent what you say – it was the quality issue. The fact that beyond a certain level, whether it's deputy director or director, within national departments, there are very high vacancy rates. I am sure Neva has numbers on that.

Duma Gqubule – Huge. It's not a skills problem

Haroon Borat – That’s the issue then, right? The vacancy rates tend to be higher in areas where there is greater need, be it skills, be it pricing, which is another issue. So, for example, should we have more teachers in the schooling system? I don’t think that’s what we’re saying. Should we have more Maths teachers? Should we have more nurses? Not entry-level nurses, but theatre nurses. So I think the distinction is very, very important. Should we have more Home Affairs officials?

Just to close: so, it’s a numbers game, very important but keep in mind all the sort of things in parenthesis. The quality issue is really important: skill levels, shortages. And the third one is the price issue. So the extent to which... And I really think that part of the problem in the public sector – but it’s the national psyche – is that you’re not going to attract the best and the brightest at the prices that are being offered for senior management. And I think that’s the reality. The nature of high circulation of Directors General and so on in the public sector is not people in search necessarily or always of sort of material wealth, but it’s just the nature of the relative prices in the labour market. And I think that’s a key component of moderating a very efficient, highly productive, almost competitive public sector, which I don’t think we have.

Mariam Isa – Réjane, you wanted to say something.

Réjane Woodroffe – Just a couple of points that, you know, that have come up or the recent comments. That whole issue of government’s role and service delivery, and it ties into the whole issue of the enormous amount of money that’s been earmarked for infrastructure projects, and making sure that we don’t just have a lot of white elephant projects. I think a lot of work needs to be done on where the R372bn or whatever it’s going to be, is spent, how it’s going to be spent and taking on board that we haven’t been... you know, South Africa’s productivity rate and efficiency has been an issue. So we’re in real danger that an enormous amount of money and resources will be spent on that. That’s the one issue I want to raise, that I think a lot of work needs to be done there because it’s a danger. And then the other issue is with service delivery. Now, this has been brought up a lot in the last few years and we’ve seen it with our budget numbers - talking about money just not being spent. Now, the danger, once again, is that money is just spent because we need to spend it and we need to build fences here, so now it’s spent, so that’s fine. I think the fact that we are pushing now for service delivery and for spending, we must be careful that we don’t go to other extreme and then just spend it on areas that are inefficient. While the issue of service delivery has been acknowledged, and we’re talking about upskilling our municipalities, this is an issue, you know, that ties directly into the shared growth part of AsgiSA. And I mentioned it earlier, the issue on specific interventions, and looking at the rural areas and rural development policy, as an intervention on its own. Because, yes, the most inefficient municipalities are in the far-flung areas, they are in the rural areas and those are where you are not going to get any kind of shared growth, whether it’s 6% or 7%, if you don’t have the roads, the clinics, the schools, and the quality of the schools that you need out there. And it’s not the same as having Home Affairs in Cape Town, where people have the confidence, people have the education and the literacy, and are able to say: I demand to be served in this Home Affairs office, I demand to get my ID document or my birth certificate, you know? In

rural areas, we have areas that – and it is personal experience because I do live out there – where there is corruption to the extent that people are forced to pay for birth certificates, which is just absolute pure corruption by teachers within schools. And it's a problem where the same interventions that are going to happen in the cities, the tourism that's going to happen in Cape Town, is not necessarily going to happen on the Wild Coast because it has got a different set of issues that is historical, that comes from an historical past, and we are going to leave behind. At our last census 40% of South Africa is still in the rural areas. If we don't have a specific intervention, and on service delivery. I think that the service delivery in the rural areas should perhaps be done and tendered from national government, because I don't think we can wait for those municipalities to be upskilled to the point that the roads get built, and the school get built. Murray & Roberts must bring a tender directly to government so that we don't have corruption in the tendering process, and then get the worst areas, just get them done! Get the roads done, get the schools and then. It's going to be a serious frustration to AsgiSA, the shared part of its growth plan, if we don't look at the areas that we're going to leave far behind.

Mariam Isa – Thank you. Anyone wants to respond to that? Neva?

Neva Makgetla – Firstly, the National Treasury is trying to do an audit of all the investments and make sure that they are appropriate and effective. And there is still a question that, you know, local municipalities often don't have capacity to - even provinces - to test those things. So we're trying to do some quality control. I think that, you know, that the one thing where I would disagree with you about the understaffing... I think there is understaffing, but there is a real problem with the systems. And if we don't adjust the systems, it's not going to help to have more people. I think that, you know, I mean we look at industrial policy... Throughout government systems were put in place to manage regulations and administer regulations. And then we go to those same people and say: come up with a policy. You know, come up with something new to guide how the regulations are shaped, and guess what? – they don't know how, they don't have capacity. And so, what you get with industrial policy for instance, you go to people who were there to, say, manage incentives structures, and say: come up with a new strategy to address other kinds of constraints. You know? And it just doesn't work very well. So I think that whole issue of how we structure these systems is actually more important than staff, even though staffing is important. I do think that, you know, there is a problem with this perception that was there in the 90s that the public service was bloated, which came precisely because of this homelands story. And what people didn't do... and I remember crunching the numbers... you could see very clearly, which everybody knew, but was suppressing, was that the administrative functions were bloated in the former homelands. Public service commissions were, like, massively overstaffed. But police, health and education, the actual service people and your Home Affairs guys – massively understaffed! And we've never really addressed that issue, and it's complicated by the fact that when you do international comparisons, usually ILO data – they only look at centrally employed public servants. And we have this funny thing that in most parts of the world health, teachers and police are employed at the local and the provincial level. So, if you go to the UK, it looks like we have a much bigger public service than the UK,

but if you include the local and provincial – whatever they would call it – employees, they are two or three times the size of us with the population that's almost the same size.

Duma Gqubule – I did adjust it for. I adjusted it and they have a figure of 1.1 per thousands, so I adjusted it to make like... And you come to the figure of about 2.5.

Neva Makgetla – Sorry, can I just say one other thing? I just want to say that two other issues that are related. I think this issue of saying, there were qualitatively different government structures in the homelands and we've never addressed. Qualitatively different social and political and government structure, and we've never really said: That's where most of the really poorest of the poor are. How do we deal with that? That's where a lot of your economically inactive people are. They are not even unemployed because they are not looking for work. How do you address that? And that's something that with these second economy interventions - although nobody likes the title - at least we can try and talk about that. The other thing was the issue of government spending on crime, because I think it comes back to that circle, which is that a lot of the people who scream about crime, also scream that you can't increase government spending, and then you end up saying: if we're going to put more money into crime, it's going to come at the cost of poverty alleviation and job creation programmes. And that's one of the reasons it's so hard for government to say, we'll do what you want on crime. That unless people are prepared to say, we will actually spend, increase the envelope. Then who is going to bear that cost? I mean that's the problem. I think people like FNB and them would say, yes, we'll accept the higher solidarity tax to get more police on the street, you know, I think their voice would carry a lot more weight.

Mariam Isa – Goolam, would you?...

Goolam Ballim – I'd like to. I think we should just remember that AsgiSA needs to play by the rules of the game, and the rules of the game are global. So when we talk about taxes, solidarity taxes, when we talk about the size of labour force or government, within government public sector, and ultimately the tax burden falls on the private sector. The reality is that we are saving-shy. In terms of the type of capital formation relative to the overall income pie, we are at least five or six percentage points below where ideally we'd like to be. The current account reminds us of that, and to the extent that more than two thirds of the current account is really made up of machinery and equipment and intermediate goods, it's again a very strong reminder of the extent to which we are dependent on foreign capital. Against the backdrop of the fact that we now have post-Soviet economies participating in the global market, the Asian economies. They bring with them a lot of labour, but they bring with them very little capital. And to the extent that liquidity is going to be flowing to these markets, to the extent that the petro-dollars and also the liquidity fostered out of previously low real rates, still low real rates. We're competing with that, so there is discipline that has to be imposed in the type of decision-making that we employ or the decisions that we employ, and also the extent to which we want to impose, let's call it transformation costs, on the process of fostering social cohesion. Because the discipline comes in quite simply by perhaps a reluctance of the foreign capital to be enticed into the local market, which will ultimately be reflected in

how they calculate their RoEs. I am not suggesting that thus far the policies have not been business-friendly, but it's a healthy reminder of the necessary discipline.

Mariam Isa – Thank you. At this point I would like to throw in a question. It's a rather marco-oriented question, but there has been a lot of talk about it. South Africa has a widening trade deficit, a widening current account deficit. The strong rand may be one of the issues, but we also have a government which is spending money, importing goods for the infrastructure upgrades... That's going to increase, it's not going to decrease. To what extent – a number of people have raised this concern – we have seen capital inflows, foreign capital inflows over the last three years, which have helped to cover this balance of payments deficit. It's reached R100 -billion roughly in each of the last three years. Now, this may or may not be sustainable, and the question I have is to what extent can this balance of payments deficit derail growth in South Africa? Growth being seen as a vital precondition for reducing unemployment and poverty.

Réjane Woodroffe - On trade deficit, I think it is important to look at the components of the trade deficit and the areas of the trade deficit that are poor, like machinery imports that are going to need to grow. Capital does follow growth. When you have a growing economy, yes, there is speculation of money that moves because of the interest rate differentials. The bulk of the money moves because there is going to be growth. If South Africa's growth path is one that's following a path that is productive and an outlook for South Africa is one that is a strong sustainable growth path, then if we are importing machineries, then that part of the current account deficit doesn't worry me. It has been the biggest part of our current account deficit. Oil is the other part that's the big part. And then - it is a sizable part - but the smaller of the three has been on the consumer side. So, I think that in terms of looking at the current account deficit, we have to be very careful as to what we are concerned about there, and whether we think it's going to derail our growth path. I think that in fact, if we continue to be importing the machines, we continue to be moving on infrastructure development path for the economy, then the current deficit is just not something that I am overly worried about.

Mariam Isa – Goolam, would you like to?...

Goolam Ballim – Briefly, just to, I guess supplementary remarks. It's a growth-centric current account deficit. In my view the point that more than half of the stuff that we're importing is really folding into the capital-formation space should suggest that the denominator that we are always talking about, the GDP that we're comparing the current account balance to, in due course, will have, should have a higher trend performance. Secondly, much is made of the fact that South Africa attracts fickle portfolio flows. I am somewhat dismissive of it being considered as light, or not having immense amounts of adhesive quality. The nature of South Africa's capital market, the nature and size of South Africa's firms are fairly substantial, so FDI which is typically defined as 10% or more of equity in controlling interest, is a substantive amount of capital required for any international investment firm to be laying out, just to be acquiring a local interest. So I think that with, you know, portfolio investment, in my view, has a great amount of FDI in it in terms of funds which have a buy-and-hold mandate or a buy-and-hold philosophy in

acquiring South African assets. And therefore I am not so sure that it is as light as many would suggest, and therefore the likelihood of substantial amount of capital simply exiting the market is not as high, simply as one looks at it as portfolio flows, and almost by definition weak. The final point that I'd make is when you unpack the current account deficit, about half of it for the most part of last year effectively constituted payments to foreign investors who had claims on local assets, right? So to the extent that we perhaps were more pedestrian in relaxing FX controls in South Africa, effectively also meant that we didn't provide an accelerated avenue for locals to be acquiring foreign assets and therefore to be now in a position to be receiving foreign annuity flows to help offset the claim that foreigners have had on the local market. And I submit, there is a lot of cyclical froth in the current account deficit, which will lose some of its edge, as the cyclical momentum in the economy fades. But I guess the ultimate litmus test of whether this is a concern is the R and I sovereign credit upgrade that occurred while most of us were lying on beaches over the summer! To the extent that they raised South Africa's profile to the coveted A-band, signifies a better understanding that there is a growth-centricity to this current account balance, and it's necessary, you know.

Mariam Isa – Given what's just been said, do people think the Central Bank is perhaps focusing too much on the current account deficit?

Haroon Borat – I buy the point that import demands are pro-cyclical and it's a sign of a healthy economy, so we need to keep an eye on the components of the deficit, but my understanding of it is that the key worry is the reserves position. That we have reserves for three months - something like that. Five? Right? – which is very low by international standards, even emerging economies. So I think that for me that talks to the monetary policy issue. To the extent to which they have an eye on the reserves, seems to be where the current account deficit is seen as a constraint rather than the notion of a deficit is a bad thing, necessarily. So I just put that out there. I think the reserve position is one that we have to keep an eye on, the fact that it is that short-term – three to five months, whatever it is. It's never gone to the level that you see in Botswana, for starters! – never mind China or India. So I think again, that's the concern about the deficit, rather than the components of it, you know? It's the nature of import demand.

Mariam Isa - And yet the Central Bank focuses quite a lot on it when it comes to monetary policy.

Goolam Ballim – Can I perhaps respond? You highlight external liquidity as a metric and there is a variety of metrics one could look at other than just import cover, to the extent to which reserves cover short-term debt. In short, I would just say that the general trend over the last couple of years in terms of South Africa's external liquidity metrics has been constructive, which speaks to why we've had these consistent positive credit upgrades. Secondly, the strong rand, for all of its decimating effects on some industries, also had a benefit in a sense that external debt has been more easily serviced. In fact an accelerated servicing programme on the part of the state, so that the reserves to foreign liability metric is also improved. And finally, for all intents and purposes, there is an effective budget balance forecasted on the part of the National Treasury or public finance over the

next couple of years, and that helps to mitigate a positive savings point of view the deficiencies of savings in the other sectors of the economy or expenditure exceeding income, which is what effectively the current account amounts to. So on balance I think there are positive countervailing forces and Haroon, while you highlight import cover, I think the policy albeit more incremental more recently has been one of attempting to boost reserves in relation to inputs.

Mariam Isa – One of the responses in AsgiSA to the six binding constraints does focus on macro-issues, which includes the currency, coordinating monetary and fiscal policy and so forth. Another question that I have in my mind, I mean, the Central Bank has raised interest rates by four times, by 200 basis points, since June last year. So far this doesn't seem to have had much impact on domestic spending, retail spending or on credit demand and the Central Bank has voiced some concern about that. What I am wondering is given that we have a growing black middle class, given that we have more and more people with more money to spend, do you think this should perhaps be taken into account in order to get the macro-strategy of AsgiSA right?

Haroon Borat – What should be taken into account?

Mariam Isa – The fact that we have a growing number of people who are less poor, we have a growing black middle class. Presumably this would feed into retail spending and demand for credit?

Haroon Borat – And we should then reduce interest rates because of that?

Mariam Isa – No, I am not saying we should reduce interest rates. I just thought maybe we could lightly touch on the fact interest rates have gone up, so far they haven't had much impact. The Central Bank does seem to still be worried about demand for credit, which hit a record peak in October. And we also have strong retail sales. Now, given that there are changes happening in the... I mean, I don't know whether any surveys have been done as to the number of consumers, and whether this is actually feeding into credit growth. Do people have any thoughts?

Duma Gqubule - I follow black empowerment developments very closely, and this whole issue of the black middle class, to me, it is, how can I put it? As Neva once said, it's an urban legend that there is this huge black middle class. And depending on how you define it, OK, if you really cut it low, and you put the cut-off point really low, then there may be one. But if you look at the top, the reality of our country is that 90% of African households earn less than R2,500 a month. Now, if you look at the ones in the General Households Survey who earn more than R5,000 a month, we are talking about less than 300,000 households! And if you look at it the other way, from the labour force survey, those who earn more than R8,000 per month, there is less than 300,000 of us! So it might have been increased by 100% from one to two, but this is a small part of the economy. 10% of African households have a car; 93% of white households have a car. So what I am trying to say is that the Sunday Times – I read their stuff – they've overblown this thing about the black middle class! And I just think it is creating a false perception out

there that consumer spending is rising because of this black middle class. And really, the black middle class is everywhere, except in the official statistics!

Neva Makgetla – Yeah, and let me just say that the consumer boom is because you had a lower interest rates. The main driver is that the people into the people who have big debts in fact - I mean it's small relative to their income perhaps – but the bulk of debt is mortgages and cars. So you had an income effect that let people at the top spend more.

Duma Gqubule - The majority of our country doesn't have access to credit.

Neva Makgetla – At the same time you have a lot of cheaper imports so that, you know... People have micro-credit and often it's killing them, but the fact it's not a huge amount of money in terms of the GDP.

Duma Gqubule - The 90% of those households, those households who earn less than R2,500 a month, none of them would get credit from Standard Bank. That's what I am trying to say. So they don't have access to credit! So where does... I would like someone... Lumkile, please tell me, where does this talk... I mean, you can put all that down and someone will say to you: no, Duma, it can't be true because when I walk in Sandton I see black people. That is the frustration I have, you know!

Réjane Woodroffe – Your original question was linking it to whether it was inflationary, and that was the real question about monetary policy, and the fact is that what we saw last year is that the PPI increased on the producer side quite significantly and that was because of petrol and you had an increase in food prices. So the question is when you have supply shocks, whether monetary policy should respond. Now we didn't see any feed-through from the PPI to the CPI. The CPI stayed around 5% and the point is that producers will pass on price increases if they have pricing powers. If the consumers are standing up and beating their doors down, then you would have seen an increase in those prices. And we didn't see an increase in their prices, and my question is whether the Reserve Bank should have been responding to what is essentially a supply shock, rather a demand shocks.

Mariam Isa – Goolam?

Goolam Ballim – I'd like to respond to you and to the latter question. I think firstly, when you discount the price of money, those who have it can afford more of it, so they're go and buy a second car, they go and buy their homes, near to Réjane near the coast, right? But also because it is just been discounted substantially, when rates drop from 17 to what 10,5 is a discount of 40% in the price of money. So those who previously did not have any of it, and now have a lower hurdle to surmount and therefore can now participate in the credit market. I must that I disagree that it's an urban legend to the extent that if we agree that over the last four or five year there has been roughly half a million jobs that have been created, formal sector jobs that have been created. And I gleaned that number by looking at the number, the growth in number of individuals who've registered for tax. We believe this to be reasonably credible because ordinarily people don't volunteer. Even

Neva, I think, would not volunteer to necessarily pay more tax than what is fairly due. So to that extent, by my estimates, at least 70% of those new jobs have been in the previously excluded race groups, right?

Neva Makgetla – I think there is this whole thing about how do we define middle class. There's been substantial growth in jobs. 55% of those in retail, about a quarter of the rest have been in construction. Now we know those jobs paid between R1,000 and R2,000. Let me just say, its growth off a small base. Of course there are more blacks in the middle class. The question is: is it enough to have this purported huge impact on demand, on consumer demand? Which would of course make all of us make comfortable, but it's probably not the case. Or is this consumer demand being driven primarily by the historically privileged group, which like we were saying, effectively has a higher income. I'm just concerned because I think it's very easy for some of us, makes us feel very warm inside to say: it true we haven't said a whole lot about poverty and unemployment, but at least there is a group of people who are really benefiting, who were historically disadvantaged. And it's true... It's there, but it's very small and if you mean by black middleclass...

Duma Gqubule – I know every member of that black middle class. I've met all of them.

Goolam Ballim – I think the answer probably lies somewhere in-between these extremes. To the extent that, by my estimates again, that yes, there is a large amount of people that remain excluded, that remain below a financial threshold when they can participate in, for example, buying the smallest of South African vehicles, which is R75,000, which requires that you a gross monthly income in the vicinity of around R3,000 per month, on the matrix of credit that bank would lend a third of your gross income and allow you to participate.

Neva Makgetla – If you don't have a house!

Goolam Ballim – I think the second thing, is you've got to look at it not in terms of necessarily individuals, but households. Now, you made a point of not having a house. An individual can participate in the vehicle ownership market, but not necessarily own their own house. Usually these are younger people participating in the labour force, joining the labour force, fresh out of school, and the ideally there is a higher potential of finding employment. In my view there is a sizable number of individuals that have seen an upward mobility in terms of their income, and this is evidenced by what I think retailers will call their "black book". As a financial institution, we can firmly say that the number of individuals that we are providing mortgages, vehicle financing to - and we are not a small player in this market – is pretty substantial. That doesn't diminish the idea that there still remain a large number of individuals who are still - in absolute terms it's more than 4 million black people - that can't find employment. Relative to the other race groups that's at least 10 times in absolute numbers and that is what is glaring. I think we agree on that respect, but I don't think that we could dismiss out of hand that there is an upward mobility amongst African savers.

Neva Makgetla – Goolam, what I think I would like your opinion on is this: I think what we're saying is something else. Everybody agrees there is some upward mobility. I think we all agree many people have been affected by that. I think the question I'm having is: The people who say we can understand the consumer boom in terms of that upward mobility of some black people, and the implication is because of the end of apartheid that they have new opportunities. So that we can see a direct link between, you know, greater equity and the economic boom. I am not so sure I would buy into that, because I am not sure that's what's really driving it.

Haroon Borat – We don't know. Do we have data on that?

Neva Makgetla – No, what we do know, we could do that fairly easily in terms of what is the percentage of growth in incomes that goes into black communities. That's fairly easily. That's the problem I have. Is that people like to say: you see, that's the structural change in effect that would underpin more return growth. And I am just not sure that that's the case.

Haroon Borat – I mean, we can agree at the margin that it may only be 30,000 households nationally. But at the margin, 30,000 households, can have an impact. And there is an acceptance there that if that represents the black middle class, so be it. It excludes 98% of the population. We need to underscore that. It's about the shared growth story that I keep on coming back to, right? That 2% of the population reaping the benefits of 6% growth is problematic. But more objectively, Neva does pose the question, but the answer is not there yet in the data. So we don't know truly whether this boom has been driven by the black middle class or not.

Goolam Ballim - Back in 1960s the cumulative of the black population was receiving roughly 20c of every rand of income and the white community was receiving roughly 70c. And we know that back then they probably didn't make more than 10% of the population, right? The natural forces of the economy, the nature of the labour intensity during 70s and 80s in mining and manufacturing meant that there was an increasing share of income that was going to blacks - despite apartheid, despite their policies to exclude them and minimise their economic participation. By the 1990s black people as a cumulative group were receiving roughly 30% to 35% of every rand of income. And I agree that it's still wholly less when you say that 8 out of 10 people are African, are black. We presently sit in a situation where nearly half of every rand of income is going to this collective black population. But again, when the population share is 80% and they are only getting 50c of every rand of income, yes, there is going to be a large number of individuals. And then you skew it in terms of the transformation divide more than from a race divide to the class divide. In the black community there are some very wealthy individuals and those are, you know, my neighbour living next to me in Velakazi Street now lives in the suburbs, but I still live in Velakazi Street! I may be a tourist attraction, but I am still damn poor! I am not dismissing that that doesn't exist, but my sense is that a higher trend growth, labour absorption, I concur with the cyclicity that has probably added a bit of lift to the numbers. I also concur with the nature, the quality of jobs that have been really concentrated in the trade sectors. And there is no durability to that. But on balance, I

would suggest that there is a structural element that has longevity and if we get this right, and even if we don't get to 6% GDP growth per year, if we were to sustain 4% GDP growth... The reality is in the 1990s South Africa grew by 1.4% per year. That means that the economy doubles every fifty odd years, right? If we grow at 4% per year, if we believe that there is a trend growth and we sustain it, this economy is going to double every twenty or so years. That changes perspective, it changes the compelling opportunities, the proposition that South Africa offers and maybe encourages a more constructive leadership. That is why I guess I said in the opening salvo, the answer may be somewhere in-between. And we shouldn't be dismissive of that this is all just a little bit of bling in a very small community.

Mariam Isa – Thank you. Can I stop you right there? We've got about five minutes left. I thought maybe we could round this off... It will be really challenging, but to have everyone respond very briefly ... You've got like a minute. I mean I think Goolam has kind of already responded. AsgiSA: the goal of halving unemployment, the goal of reducing poverty as set out. We'll leave growth aside, because that's a side issue, that's the means to the end, but given where we stand now, is it achievable? Do people think it's going to happen? We'll start with you, Neva. You've got a minute.

Neva Makgetla – Of course I think it's achievable. I think there is quite a few things that we'll have to do to get there. And like I said, I think the critical issues are massifying second economy programmes because employment creation will not reach into the former homeland areas, just to start there. Secondly, to get our industrial policy right, taking into account the realities around the exchange rate, which I think we still have to look at the implications of that. And all of that requires, as everybody else was saying, more functional state. Yeah, of course it's achievable. Whether we'll achieve it is a different story.

Mariam Isa – OK, thanks. Lumkile?

Lumkile Mondli - I think to go forward we should be able to make a huge dent in unemployment. We're looking at about 2014 unemployment sitting at around 19% - below where it is at the moment. On average we're expecting about 250 000 jobs to be created starting from this year. We are going forward. And the labour absorption capacity growing from the 9% to about 44% by 2014. And poverty to be halved. So I think the story is very positive. The challenges remain on the boldness of the central government in terms of following through and implementing what it set itself to do in the AsgiSA paper.

Mariam Isa – Thank you.

Haroon Borat – I'll return back to this nature of growth story. I mean I think the extent to which economic growth is a necessary but not a sufficient condition for poverty reduction is key. Historical evidence: 95 to 2000 - I am waiting for new data sets to do it for the full decade - indicates that the gains to poverty reduction from economic growth were dissipated by rising inequality. Simply put, that means we lost any possible gains that we could have had in terms of reducing poverty levels because inequality went up.

And that's just a redistribution. In other words, what happened is the redistribution of income stretched, so basically more people ended up in poverty despite having positive growth. The nature of growth is key.

Réjane Woodroffe – Yeah, I think that the most important points have been highlighted. I think that the shared part of AsgiSA is the bigger challenge. I think that on the growth side we've already demonstrated that, you know, the level of growth, getting that percentage, I think that certainly is achievable. The shared part is the one that I think there should be a lot more focus on. I think Neva focusing on the second economy, but for me it's not just the second economy. As I've said before, it's those who are not part of any economy, and it's those who are sitting in the far-flung rural areas that I think will get left behind. And then on the industrial policy side, you know, I really think that it should really not just be this level of volatility of the rand. It should be called "lack of development opportunities in the tradable sector" and the range of issues that go there, whether it's competition policy, trade policy, and just focusing that much on the rand is a sure recipe for increased volatility of the rand. So that does worry me.

Mariam Isa – Thanks. Duma?

Duma Gqubule - What I would like to say is that what really worries me about this discussion is that it reflects a malaise for the whole country, that we've set our benchmarks far too low. And if the 4% over the next ten years that Goolam was talking about is the benchmark that we should aim for, and the 19% unemployment rate that Lumkile was talking about, I think we have to get a lot more bolder than that and try to lift our growth rate up. About AsgiSA: my view is that the majority of South Africans do not know what AsgiSA is about and I believe that in two years' time even the educated elite will not be talking about AsgiSA. There will be something that will replace AsgiSA and AsgiSA will go the way that all the other Batu Phele, Letsima, Vukuzenzele, RDP, GEAR...

Mariam Isa – Thank you. I am going to give Goolam his one minute.

Goolam Ballim – Thank you. You are very kind, Mariam. If there was a single bullet that I would suggest that would inject itself and galvanise AsgiSA would be private sector leadership. I think private sector leadership in transformation and gender, transformation and race, transformation of the economy, transformation of scale was really glacial and lacking in the 1990s. Evidence of a more constructive, positive contribution clearly highlighted for example in the transformation charters. It arrested the mind, it helped the leadership to focus on what the long-term agenda is. But it also helped to contextualise their contribution to the debate and to risk-taking. And helped in fact to mitigate or diminish the risks as they may have perceived them in terms of political cycle. So I think private sector leadership would be a welcome input into the process.

Mariam Isa – My two minutes? I think we've had a very broad-ranging debate here. I think we've had some interesting views that are odds with each other in some cases, the role of the state and the role of the private sector being one. Issues around job creation,

how to best go about it, whether the rand is an issue, whether the rand can be made stable by any form of control that can be imposed on it, or to depreciate it gradually in a controlled way, which everyone says is necessary but can it actually happen when it's market controlled? The issue of South Africa being different from other emerging economies with a huge unemployment problem. All the sort of backlog of apartheid in the education system and in infrastructure, particularly in rural areas. And yet South Africa has to fit into a global environment and in order to prosper it has to find its niche in the global environment. So, there are all these different strands that have come up that need to be balanced. I think another issue is whether AsgiSA is a blueprint or a concrete plan of action. A lot of people - Duma mentioned in two years nobody will know about AsgiSA - well, I find that right now a lot of people don't know much about AsgiSA. They don't talk about it even among economists. And perhaps that's an issue. You know, is it this vague plan, which is not going to crystallise into action? And if action happens, is it going to come through AsgiSA or is it going to come some other way? That's how I would sum up what I heard today.

END