CDE ROUND TABLE

Number six, 2001

CDE Round Table is an occasional publication reflecting discussions held on key contemporary topics

Why is South Africa failing to get the growth and jobs that it needs?

In late 2000, the Centre for Development and Enterprise hosted a Round Table discussion to explore why South Africa is failing to achieve sustained high rates of economic growth we need to reduce unemployment and reach our development goals.

Participants included CDE Board member Professor Wiseman Nkuhlu, recently appointed Economic Advisor to President Mbeki, a group of senior business and parastatal leaders, and influential economists.

The discussion was frank and innovative. In the first half of the Round Table, participants analysed a number of serious obstacles to growth and job creation. These included the causes of current low investor confidence; deeper-lying obstacles to growth – in particular the difficulties associated with obtaining high-quality human capital; inappropriate government policies on labour and migration; inefficiencies in the central bureaucracy; capacity problems in the delivery of basic services; inadequate infrastructure maintenance and investment; unnecessary tensions in the government-business relationship; weaknesses in the macro-economy and South African firms' responses to freer trade.

The second half of the discussion suggested solutions to the problems that had been identified. Among these were the necessity for a smaller and more focused government agenda, deeper and better business–government relationships, a common vision for the country and strategies to combat poverty directly.

This is an edited version of the day's discussion. Key points are summarised at the end of this document.

> *'South Africa's leaders have to believe that market-led development is the only way to create a better life for all. They must commit to market-led development, and structure every government policy and signal around that choice.'*

Participants in the Round Table

Prof Iraj Abedian, chief economist, Standard Bank of South Africa Ltd

Marcus Andrade, chief executive officer, Citibank South Africa

Francis Antonie, senior economist, Standard Bank of South Africa Ltd

Ann Bernstein, executive director, CDE

Prof Norman Bromberger, associate professor, department of economics, University of Durban-Westville

Cas Coovadia, transformation general manager, The Banking Council of South Africa

Dr Simon Dagut, senior research co-ordinator, CDE

Dr Stephen Gelb, economist, Development Bank of Southern Africa

Martin Glatt, joint chairman, Tiger Wheels Ltd

Rudolf Gouws, group economist and executive director, Rand Merchant Bank

Prof Douglas Irvine, senior associate, CDE

Dr Azar Jammine, chief economist, Econometrix

André Lamprecht, chair, Business South Africa

Colly Mashego, deputy president, Malamulela Social Movement for the Unemployed

Mafika Mkwanazi, managing director-designate, Transnet

Eric Molefe, chief executive officer, MEEG Bank

Prof Wiseman Nkuhlu, economic advisor to the president

Tshilidzi Ratshitanga, director: national liaison, Government Communication and Information System

Prof Lawrence Schlemmer, professor *extraordinarius* of Development Studies, University of Potchefstroom

Prof Charles Simkins, Helen Suzman professor of Political Economy, University of the Witwatersrand

Doug Smollan, chief executive officer, The Smollan Group

Mike Spicer, executive vice-president, corporate affairs, Anglo American Corporation of South Africa

Theo van Wyk, chief executive officer, Remgro

Acronyms and abbreviations

CBD	:	Central Business District
CDE	:	Centre for Development and Enterprise
COSATU	:	Congress of South African Trade Unions
DBSA	:	Development Bank of Southern Africa
FDI	:	Foreign Direct Investment
HRC	:	Human Rights Commission
GDP	:	Gross Domestic Product
GEAR	:	Growth, Employment and Redistribution Strategy
JSE	:	Johannesburg Securities Exchange
MTEF	:	Medium-term Expenditure Framework
NQF	:	National Qualifications Framework
PPPs	:	Public-Private Partnerships
SACP	:	South African Communist Party
SANDF	:	South African National Defence Force
SAPS	:	South African Police Service
SARB	:	South African Reserve Bank
SARS	:	South African Revenue Service
SMME	:	Small, Medium and Micro Enterprise
UNDP	:	United Nations Development Programme

Views expressed by the participants are not necessarily those of CDE

Introduction

***Ann Bernstein**, executive director of the CDE, welcomed participants to the Round Table and opened the discussion:*

In October 2000 the Minister of Finance announced that he expected the economy to grow at an average of 3.5 percent per year over the next three years. I was amazed that nobody pointed out the implications of this low figure. 3.5 percent GDP growth comes close to being a national disaster. The simple fact is that unless we're able to achieve 5 to 6 percent growth per year sustained over a long period, we're not going to be able to reduce the backlog of unemployment and poverty in South Africa.

The South African miracle depends on rapid and sustained economic growth. Continued racial reconciliation, the management of regional and ethnic tensions, the upliftment of the poor, the reduction of racial inequality, sustainable rural and urban development, President Mbeki's aim of making South Africa 'the world's most exciting emerging market' – all these and many other goals depend on South Africa achieving rapid economic growth. The purpose of this Round Table is to discuss what is keeping growth rates down; and to suggest ways of getting us onto a higher and job creating growth path.

The government and the country as a whole have achieved some major successes in the first six years of democratic rule – fiscal discipline and housing delivery are good examples. These successes notwithstanding, we are declining in a large number of sectors, especially when compared to other developing countries. We appear to be heading for the bottom third of almost every comparative table.We must stop pretending we can fix everything wrong with South Africa all at once. There is an enormous chasm between the desire for total transformation of everything we do need to fix in our society and the complicated realities of institutional change. Successful change in any part of the South African system can only take place in carefully selected, well thought through incremental steps. Anything else (grand plans involving the simultaneous introduction of numerous pieces of legislation, fundamental structural change, new procedures, powers, functions, new institutions etc) has extremely negative results.

We are a newly democratic, developing country with enormous shortages of skills, resources and institutions. Policy has to be made for the conditions under which it will be implemented. It makes no sense to talk of South Africa adopting 'Rolls Royce' policies or 'the best' system in the world. If we do not have the capacity to implement sophisticated policies they will fail. It is far better to design appropriate 'Toyota' policies that can actually be implemented, bearing in mind South African realities, and achieve results, albeit sequentially and incrementally.

Our good intentions and bold ambitions have not always brought us good results. South Africa has really limited capacity to get things done. In the light of these hard realities, we need to make some tough choices:

- can South Africa afford to be a major global player? Can we afford to dissipate our energy, trying to be Africa's champion in the world and the leading developing country – the country that aims to bring peace to Africa, that fights the battles of other developing countries against the 'North' and the multilateral institutions? OR are we going to concentrate on 'fixing' South Africa and managing all the difficult challenges we need to confront in this country now? Shouldn't we limit our foreign policy

Business would prefer President Mbeki to spend less time on foreign policy and more time at home, focusing on delivery.

South Africa's long-term decline

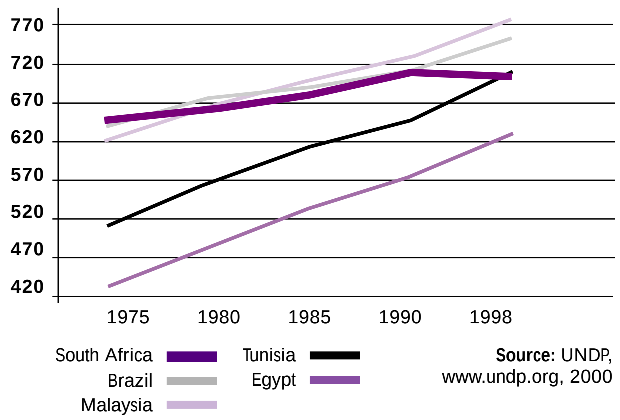
As President Mbeki pointed out in his opening of Parliament Speech on 9 February 2001, South Africa's economic performance has 'continued to improve in an impressive manner' in recent quarters. This is excellent news, but there is a lot of ground to be made up.

The UNDP's Human Development Index – a broad measure of quality of life – shows that the material quality of South Africans' lives has been overtaken by those of citizens of comparable middle-income developing countries in the last two decades – and the rate of our decline appears to be increasing.

Our long-term GDP performance is equally worrying. Although South Africa's GDP growth in the last five years has closely tracked that of other middle-income countries, it has consistently done so at a lower level.

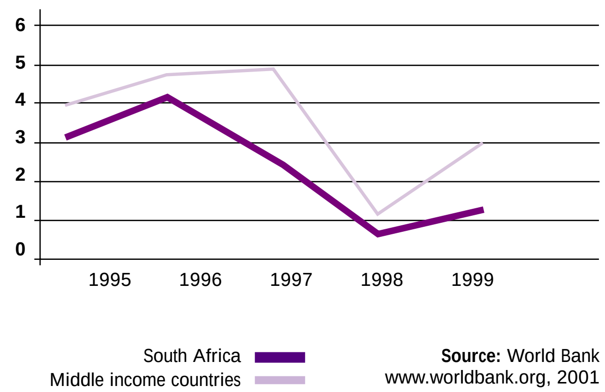
To reverse its long-term decline, South Africa needs to move decisively onto a higher growth path.

HUMAN DEVELOPMENT INDEX



Source: UNDP, www.undp.org, 2000

GDP % GROWTH



Source: World Bank www.worldbank.org, 2001

objectives to only those that are absolutely essential for South African success? Given our limited capacity and the huge range of domestic challenges we face, we really can't do both

- should South Africa become immersed in the problems of the continent? OR should we distinguish ourselves by 'leading' the revival of Africa? Our success could be the most important contribution we can make to the continent and we should concentrate ruthlessly on what is required to do that. This certainly wouldn't be a choice made because we don't care about the rest of Africa. We would make it because it is the only way in which the long-run interests of the wider region are going to be served
- can South Africa deal with poverty if we continually bemoan its existence, investigate who is to blame for it and focus on its many symptoms? Shouldn't we rather be looking at the structural issues that keep people poor and focus our attention on how we can build wealth, encourage excellence, reward entrepreneurship and create the opportunities that enable people to rise out of poverty? Should we as a society focus on poverty OR on how to get rich? The difference is profound
- can we achieve the economic growth the president wants and we know South Africa needs:

– if we're going to be hostile to the skilled foreigners we need to teach in our universities and schools, to invest here, to run businesses and to help manage our industries and services? Why does our immigration policy make it so difficult for these immensely valuable people to settle here? We should be rolling out the red

carpet rather than a tangle of bureaucratic barbed wire
– if race is going to be a more important issue than merit in deciding who gets appointed to senior executive positions? Can we create jobs at the rate we need if the colour of senior managers continues to be more important than whether the institutions they run actually deliver opportunities to millions of South Africans effectively?

- lastly, but perhaps most importantly, we have to ask whether it is really possible to get the growth that we need if our political leadership have ambiguous attitudes to market-driven development? What is the effect on President Mbeki's goal of making South Africa 'the world's most exciting emerging market' if many of the most senior members of the ANC and the Cabinet continue to speak about the market – even a well-regulated, carefully-taxed market – as no better than a necessary evil? Think of the impact on the country if the president and members of the cabinet were to go from town to town, city to city and talk about:
– why they are convinced we can only succeed as South Africans if we free up the market
– why this will be hard and cause some pain but then explain how they intend to manage this difficult period of change
– what 'pain' the cabinet and other politicians will endure with the rest of the country (e.g. no salary increases for the next two years, modest housing, hotel, transport, security and other 'perks')
– where we are going as a society and so provide citizens with a positive and inspiring vision of this country's future as *the* African success story.

Business leaders are concerned that South Africa may not be the best place to commit the majority of their shareholders' capital or their own intellectual resources over the long term.

Why are we failing to get the growth and jobs that we need?

***Martin Glatt**, joint chair of Tiger Wheels Ltd, noted that business leaders recognised government's achievements and reaffirmed the commitment of large and medium enterprises to transforming South Africa. He expressed concern, however, that business confidence would not improve until the government committed itself to a number of business-friendly policy changes:*

The business community is acutely aware of the democratic government's achievements. South Africans' rights are protected by the Constitution. The government has set very high standards of openness in public life. Dignity has been restored to millions of people. The government has set inclusive and commendable goals in almost all of the most important areas of South Africa's life – and has reached a significant number of them. Housing delivery has been impressive, for example. Major improvements have taken place in certain government departments and functions, in particular at the Department of Finance, the SARS and the Reserve Bank. The government's macroeconomic management has been exceptionally disciplined, skilful and courageous. Business is also strongly encouraged by the president's announcement of his International Investment Council and looks forward to its members playing a more active role. Business people in general tend to be passionately attached to South Africa and fully acknowledge the need for continued transformation, empowerment and redistribution

But they are less confident now than they were a year ago – and this isn't only due to the decline of the JSE. The world is increasingly characterised by personal and capital mobility. Business leaders are concerned that South Africa may not be the best place to commit the majority of their shareholders' capital or their own intellectual resources over the long term. In order to recover confidence, business needs clear signals from the government on:

- the 'size of the cake'. The government must commit itself more fully to growing the size of the economic cake rather than merely redistributing existing capital
- better business-government communication. Business needs government to be more receptive to criticism and more open to debate than was the case in 1999–2000. Business people welcome the formation of the President's Big Business Working Group, but would like its meetings to be more frequent and far better publicised to the wider business community. Ministers and senior officials should place a higher priority on attending business events. Frequent 'no-shows' create a very bad impression
- an intensified anti-crime campaign, particularly against corruption, fraud, and illegal importing
- the need to reverse the 'brain drain' of skilled young people and encourage skilled immigration
- making major privatisations actually happen in 2001
- ensuring that the performance of government departments and parastatals will be measured and audited by objective delivery criteria. The pace of internal transformation within organisations should not be a more important indicator of their success than their capacity to serve all South Africans equitably and efficiently
- foreign policy: local business confidence depends on the government being willing promptly and clearly to condemn violations of human rights, the rule of law and stable property relations wherever they may occur. Business would prefer President Mbeki to spend less time on foreign policy and more time at home, focussing on delivery
- the need to increase labour market flexibility. Efficient and profitable businesses depend on productivity-based incentive structures for employees. Business is opposed to the unfair exploitation of labour, but government and business must also meet their obligations to the 35 percent of the total labour force who are unemployed. Surely we can all learn something from the fact that the regulated formal sector is shedding jobs while the unregulated informal sector is experiencing strong employment growth?

The nation must have an overarching goal to which all decision-makers can aspire, to provide them with the criteria against which they judge their actions.

***André Lamprecht**, speaking in his capacity as chair of Business South Africa, pointed out that South Africans need to work within the constraints of globalisation if the country is to achieve growth. In addition, delivery promises must be kept and poverty addressed through public works programmes:*

South Africans have to accept that we live within the constraints of the globalised world. We will not be able to fulfil our obligation to achieve a better life for all unless we make peace with the set of rules imposed by globalisation. We can't change them. We have to make the best of them.

Investors need to be confident that the return on their capital will be better than its real cost. Therefore, to attract new foreign investment, we need:

- a stable fiscal regime. This is very important to encouraging investment. It was unfortunate that three new taxes were introduced in 2000
- more human capital. Skilled people are both more crucial to growth and more mobile than they have ever been. They will travel to where they will find the best, most secure returns. South Africa has to offer large rewards to skilled people. It may not be 'politically correct' to say so, but we have to make South Africa a good place to get rich – and a comfortable place to stay rich
- local investor confidence. The first thing foreign investors look for is to see whether you put your own money where your mouth is. We have to invest more in ourselves. Our rate of domestic capital formation needs to rise in both the private and public sectors.

Privatisation benefits the poor

A World Bank study of 61 privatisations in 18 countries showed that, on average, the efficiency of these companies had risen by 11 percent and that they had taken on 6 percent more employees. In developing countries, increases in net employment levels have been even more impressive. In developed countries, privatised utilities are likely to seek profit by cutting labour costs – but in poorer countries the pursuit of profit usually creates more jobs. This is because newly privatised utilities in underserviced areas increase their profits by extending their services. In Peru, for example, telecoms privatisation created more than 11 000 new jobs in the sector.[1]

In South Africa organised labour continues to resist attempts to privatise state enterprises and municipal utilities. Unions fear that privatisation will result in job losses and deteriorating service provision. In Nelspruit, for instance, the South African Municipal Workers' Union has fought utility privatisation every step of the way despite employment guarantees built into the privatisation contract.

Some Nelspruit township residents complain that service levels have declined and that costs have increased since the concession to provide water and sanitation was granted to a private company.[2] It is true that privatisation is not a panacea: competitive tendering, performance contracts and careful monitoring are vital if privatised utilities are to improve service levels in areas which had previously been serviced by a public utility.

However, without privatisation, most of the 250 000 people in the Nelspruit area could not expect to receive clean water at all. The DBSA reports that the Nelspruit utility company will spend R195 million on upgrading infrastructure in the first 6 years of the contract – and that the investment level will rise to several multiples of that figure over the 30 year life of the concession.[3] As ANC spokesman Jackson Mthembu put it in 1998, 'Government does not have the money to provide for the needs of all our people. Privatisation is in the interests of our people who need water.'[4]

Sources:

[1] DBSA, Public–Private Partnerships and Impact on Jobs, PSI report No. 3, www.dbsa.org/Private Sector/ppinote3.htm, 8 September 2000

[2] P Nkosi, ANC election promise jeopardises R1,3 billion water concession, Africa Eye News Service, 21 November 2000

[3] DBSA, Press Release, 29 June 2000

[4] S Hammond, Union's protests threaten water provision to 200 000 rural residents, African Eye News Service, 13 August 1998

We should concentrate on creating modern infrastructure, in particular for people who were deprived of it in the past. When domestic capital formation starts to rise, foreign investors will come to the party

- free outflow of South African capital. Until South African firms are completely free to become multinationals and South African individuals are free to invest anywhere in any amount, international investors will stay wary. Complete capital market liberalisation is a strong signal of confidence – and foreign investors need to know that South Africans are confident about themselves.

To achieve all of this, we need a group norm. The nation must have an overarching goal to which all the people involved in making decisions can aspire, and to provide them with the criteria against which they judge their conduct and their decisions. Government, business, organised labour and civil society in general need to agree that we want to position this country as the first choice emerging market for both domestic and international investors. If we really accept that as our norm, we will also have to accept an enormous amount of discipline. We need to assess our legislation, our practices and our symbolism against this tough benchmark. But if we don't accept this discipline, we won't get the growth that is required to create a better life for all of our people.

We have to acknowledge that even when the government sends positive signals, there is still hesitancy among local and international investors. The hesitancy is about whether there will be the capacity to deliver. We have enormous amounts of capital bottled up and delivery promises have been broken. What has happened, unfortunately, is that investors now feel

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sceptical about whether signals are for real. For instance, the Minister of Finance recently announced a major increase in state infrastructure spending. This should have had an immediate accelerator effect on private sector investment, but because of this scepticism we have to wait for the first deliveries actually to take place.

We need to combat poverty more directly. It isn't possible to create a stable society with the current levels of unemployment. Specifically, we need a large-scale public works programme that spreads infrastructure into the rural areas and that can provide jobs and cash incomes.

***Charles Simkins**, professor of Political Economy at Wits, argued that South African firms need to become more export-oriented. In the longer term, the economy will not grow and create jobs unless efforts to improve our human capital are intensified. Poverty and inequality must be tackled head-on:*

> We need serious, long-term, nation-wide measures to reduce poverty and unemployment. A basic income grant is too expensive, inefficiently targeted and inflationary. A much better approach would be an expanded public works programme.

First, we must continue to integrate into the global economy. The transition to an open, export-oriented economy is not complete and the capital markets are not yet fully liberalised. South Africa's export performance in the 1990s has been better than in the past couple of decades. But South Africa's exports as a proportion of world exports are still dropping. A great many South African firms only become export-oriented when they encounter difficulties in selling their product on the domestic market. Firms tend to have a casual approach to exporting rather than a systematic engagement with world markets.

Second, we sorely need more efficient human capital production. Compared to other middle income countries, South Africa has a shortage of professionals and artisans. Neither our artisans nor our managers are particularly well educated. This has huge efficiency costs for the economy.

We need a no-nonsense attitude towards the school system. Realistic objectives must be pursued within a stabilised system. The Department of Education is talking about a series of changes to the education system lasting twenty years or more. We just don't have the time for that sort of thing. A short-term strategy for getting output up is needed. We also need more objective indicators of how the educational system is doing. The occupational training dispensation looks more promising, although the National Qualifications Framework is too bureaucratic at present. It would be a major advance to simplify the NQF and apply it only where it's really relevant, in the further education and training sector.

South Africa has to decide where its comparative advantages will be in future. Our minerals comparative advantage is eroding. Mineral prices are being kept down by new discoveries all over the world. Uncertainty about the form our new mineral rights legislation will eventually take is also damaging the sector. High quality human capital will become ever more important to us. For instance, the reason why India can take advantage of the burgeoning world software industry and South Africa can't is because India has a large group of people who already had a good basic education and who could be trained up quickly to export information technology services at relatively low cost.

Third, we need to reduce poverty. Apart from being very undesirable for a whole range of obvious reasons, endemic poverty also prejudices growth. We need serious, long-term, nation-wide measures to reduce poverty and unemployment. At the moment, a government committee is considering a basic income grant. That's a bad idea. A basic income grant is too expensive and not efficiently targeted. It's also inflationary. It's simply a transfer without any direct effect on output. A much better approach would be an expanded public works programme. A national public works programme should offer wages set by the amount of money that government is prepared to spend on relieving unemployment rather than by existing minimum wage legislation.

***Stephen Gelb**, DBSA economist, discussed the findings of a recent survey of South African firms' carried out by the President's Office. Speaking in his personal capacity, Dr Gelb argued that firms will not invest more enthusiastically until they feel more secure about the socio-political environment:*

The issue of declining investor and business confidence has dominated a lot of people's minds over the past six to eight months. This decline has long-term causes, going much deeper than anxiety over the instability in Zimbabwe or concern over statements that the president and other government officials have made during the last year.

The Office of the President recently completed a project looking at the issues around firm-level investment decision-making. The survey was done before Zimbabwe became an issue and before HIV/AIDS was a public issue in the way it was to become later. The responses reflect the views of businessmen during a period when confidence indices in the business sector were at historical highs – November 1999 to February 2000.

The survey covered about 1,400 firms in manufacturing and services. The firms approached ranged in size from five employees upwards, so the survey obtained a good cross-section of the views of South African business. It's worth noting that about 14 percent of responses were from 'non- white' businesses – mainly coloured and Indian, but also some African. The opinions of this group could not be distinguished statistically from the views of the white-run businesses. It is clear that business decisions are not determined by the race of the people making them. The two most important things the survey found were that:

- Investment rates are extremely low. There's no question about that. Even when confidence was high, firms were planning very little investment expenditure. Big firms were planning, on average, 2 percent increases on the previous financial year. This is clearly far less than we need.
- Low business confidence is not caused primarily by dissatisfaction with South

The obstacles to foreign direct investment

'Has the government put the fundamentals for foreign direct investment in place? Let's answer that question. We should list them and tick them, saying "These are in place, these are not in place." If ever there was anything that we needed to go back to government about, it's those areas where there are clear weaknesses on attracting FDI. Are we as South African business actually being heard by government on this?'

Mafika Mkwanazi, Managing Director, Transnet

SOUTH AFRICA'S ATTRACTIVENESS AS AN INVESTMENT DESTINATION

The fundamentals of FDI	In Place	Uncertainty	Not in Place
Inclusive democratic state	✓		
Free press	✓		
Fiscal discipline	✓		
Sound monetary policy	✓		
Open trade regime	✓		
Sophisticated financial sector	✓		
Fair and dependable legal system	✓		
Clearly-defined property rights	✓		
Abolition of exchange control	✓	?	
Domestic business confidence		?	
Major privatisations		?	
Infrastructure investment for growth		?	
Stable regulatory environment		?	
Effective international and domestic marketing		?	
Reliable public sector delivery		?	
Operating costs		?	
Competitive tax regime		?	
Stable currency		?	✗
Market size		?	✗
Safety and security			✗
Human resource development			✗
Skill-friendly immigration policy			✗
Labour market flexibility			✗
Minimal public sector corruption			✗
Differentiation between South Africa and wider region			✗
Stable neighbourhood			✗
Confidence in government managment of AIDS epidemic			✗

Source: CDE, 2001

Opposition to GEAR is a total red herring. The issue is not that we are budgeting for too small a deficit but that the government is not spending the money that it already has on poverty relief and social services.

Africa's macro-economic position, but by a group of social and political issues. These include taxation, the labour regime, the quality of infrastructure, uncertainty over government economic policy and concerns about crime and social policy. Areas in which the government can play a major role – prevention of crime, taxation, labour regulation and so on – are the most important obstacles to investment.

In a sense, all these anxieties have a common root: decision makers inside firms are not comfortable about the socio-political environment in which they have to operate. They don't feel secure enough to make further long-term investments in South Africa. What if they invest heavily in new machines and further changes to the labour regime make it too expensive to employ operators to run them? What if debate within the governing party shifts economic policy in a 'populist' direction? What if their skilled employees fall victim to crime or HIV/AIDS?

How can firms be made to feel more secure? If we're going to get more rapid growth, this is the key issue that has to be confronted.

In my view, the economic and social polarisation of our society must be addressed. Unless we reduce polarisation, we're not going to improve the underlying lack of confidence that is holding back investment. Firms do need to accustom themselves more fully to South Africa's democracy, but the main cause of polarisation is economic inequality. We need to improve South Africa's income distribution if investor confidence is to improve over the long run.

Points raised in discussion

One light green, one light red

- The government must stop sending mixed signals. It has good intentions, but with one light green and the other red, we're not getting ahead. The economy must be freed from unnecessary regulations. Entrepreneurs and businessmen must be given the room to get on with the job of creating wealth and employment and expanding the tax base. Before the government thinks about where it should put new incentives for business it should remove existing obstacles.
- Business needs the government to provide a stable environment. It can't operate effectively if the regulatory environment remains unclear for long periods or keeps changing. Speed and certainty in government decision-making are essential for job creation and growth. For instance, we need growth-friendly government action on skilled immigration and mineral rights and we need them quickly.

Crime

- Crime levels are unacceptable and very costly. The government's current moratorium on releasing crime statistics simply increases the level of insecurity. Business people, particularly those who are not protected by large companies' private security systems, live in fear. It's hard to expand your firm or employ more workers when you're feeling like that.

Selling ourselves short

- As a foreign investor, a participant observed that he was astounded by how badly South Africa is sold to the outside world. Many South Africans are far more negative than they should be. They tend to forget that their problems are not very different from those faced by most Asian or Latin American countries. But South Africa does need to face up to its skill shortage and its unemployment problem. As corporate restructuring continues and large privatisations start to happen, unemployment will get worse. Something must be done about that. On the other hand, it's not just that South Africa has too few skilled people, but that skilled labour is too expensive here. For example, firms can get their data processing done far more cheaply in India than here.

- Companies considering making a capital investment in an emerging market are choosing among fourteen or fifteen comparable countries. South Africa is among the fifteen real competitors. Even so, Argentina, Indonesia, South Korea – all the 'tigers' – have got huge problems that we don't have. We have the most advanced financial sector among emerging markets, for instance. It's not that we don't have problems, but we shouldn't 'short-sell' ourselves.
- South Africa is still too small to attract major new interest from multinational corporations looking for consumer markets. We need to position South Africa as the best possible gateway into the markets of sub-Saharan Africa. These markets are poor, but they are large and underserviced enough to attract far more attention if South Africa could provide a stable and attractive 'beachhead' for multinationals. South Africa should translate its commitment to an African Renaissance, its regional clout and its considerable store of African diplomatic goodwill into a serious effort to make sub-Saharan markets accessible and attractive.
- When we drop tariff barriers, developed countries are slow to reciprocate. We have the right to protect ourselves against the harsher features of globalisation. We have the right to play 'hardball' in international trade negotiations. Other countries certainly do.

Opposition to GEAR – 'a red herring'

- We cannot tolerate jobless growth. The government must try to create a balance between economic growth and social development.
- Opposition to GEAR is a total red herring. The issue is not that we are budgeting for too small a deficit but that the government is not spending the money that it already has on poverty relief and social services. Globalisation often leads to a bigger gap between haves and have nots. The government has to divert resources to those who just do not have means to adapt to the changing economy. This has not been happening in South Africa.
- It was never going to be easy to get us out of the bind that South Africa was in by 1994. The government should have been more open about GEAR's inevitable side-effects. The pain is already yielding gains. We've done a lot of the right stuff at the macro level, but while this was necessary it was not sufficient. One can make a long list of things about the micro-management of the economy that need to be improved. There has already been a lot of pain and there's going to be still more. We should have heard more from our leadership on that. Government should have prepared people – and should have had more effective plans in place to soften the blows as much as possible. It's not too late, though. As we press ahead with GEAR, and it begins to produce more revenue for the government, social initiatives – like income support or public works – should be introduced. We also need a more flexible labour market.

The costs of crime

In May 2000, the World Bank released the results of a survey of 325 large manufacturing firms based in Johannesburg. The survey found:

- 94 percent of the firms ranked crime and violence as the major constraint to firm growth
- 85 percent of the firms reported that they were subject to crime in 1998
- 61 percent of the firms reported that their employees were victims of crime on their way to or from work.

Source: Greater Johannesburg Metropolitan Council / World Bank Partnership, 19 May 2000

We just don't have enough skilled people to manage all the complex processes of transformation. The transformation agenda was just too big, we tackled too many things at the same time.

A question of trust

There are many potential allies for a growth coalition who have not even been approached for their opinions. They deserve to be 'social partners' just as much as the big three.

- Why were the AIDS and Zimbabwe issues so important to business people? It wasn't so much the issues themselves – they merely catalysed underlying concerns. Business people's confidence is so low that they actually disbelieve the GDP statistics. Many of them are feeling increasingly marginalised. This is the result of a fairly rapid perceived deterioration in race relations over the past year. Several factors have contributed to this, including the debate over racism in the media, the HRC conference on racism and terrible racist incidents being shown at length on state television during the build-up to the local government elections. Unfortunately, the two major political parties are now perceived to be competing along racial lines. What's more, there is a feeling that employment equity and transformation are often pursued in an aggressive, almost vengeful, manner.
- We undoubtedly need employment equity and transformation, but small business in particular simply cannot cope with the way they are being implemented. Small businesses haven't the will or the resources to fill in all the forms required, let alone to do the exhaustive personnel searches and extensive in-house training required by a zealous affirmative action programme. They are more sensitive than large corporations to government's perceived impatience on this issue. They don't have big business's relatively close contacts with the government. They believe what they read in the papers. Many of them are deciding that it would simply be easier to sell up the factory and leave the country.
- There's not enough trust between business and government. We need increased engagement. The government expected that business was going to respond overwhelmingly positively to GEAR. Once that did not happen, a lot of blame was placed on business. It did not go unnoticed that business is still predominantly white. The whole thing became very acrimonious and the relationship deteriorated. This question of trust is critical in terms of moving forward. Unless we are able to get to a stage where government, business and other main stakeholders can say that we have a shared vision for the country for the next ten or twenty years, we are not going to be able to move forward. We need to put a lot of effort into that.

Infrastructure and economic growth

Allowing existing infrastructure to deteriorate in the name of equity, or simply from mismanagement is a very costly strategy.

A newly published study of the South African road system for the Automobile Association is instructive. The report points out that, 'South Africa's relative prosperity has in no small measure been enabled by its excellent national and provincial road network'. Since the late 1980s expenditure priorities have been elsewhere and the report shows the false economies of this neglect.

- In 1988, 75 percent of roads were in good condition. 10 years later, this had declined to 33 percent of roads.
- R65 billion would now be required to restore the roads to their 1988 condition. This is seven times more than regular maintenance would have cost.
- Travelling on a poor road costs nearly twice as much as travelling on a good one. A crucial input cost for business (never mind the ordinary citizen) has, therefore, almost doubled.

Source: Jeffares & Green Incorporated for the Automobile Association of South Africa, Road Conditions and Funding: 1988-1999, July 2000

A smaller government agenda

- We just don't have enough skilled people to manage all the complex processes of transformation. It's not a question of the government being incompetent. We all need to understand that the challenges we face would stretch any government, any bureaucracy. The transformation agenda was just too big, we tackled too many things at the same time. Closely linked to the capacity issue is the question of education and training. We are all aware of the harm done by Bantu Education but suddenly when we were free in 1994, we forgot about that. We thought that somehow miraculously the country was going to be internationally competitive after April 27 1994. South Africa cannot be competitive in the global knowledge economy unless we have a viable and aggressive strategy to deal with our educational backlogs. Education must be one of our absolutely core priorities.

• Our society is faced by acute capacity shortages. We need to prioritise a few achievable goals. Either do a few things well – or try to do a lot of things and end up not doing any of them. Business people will respond far more positively to the announcement of a few achievable goals than to the unveiling of another hyper-ambitious catch-all programme. Since carefully defined goals can be reached quickly and efficiently, the majority of South Africans would also benefit from a smaller government agenda.

Building a growth coalition

• There's too much focus on 'the big three' in South Africa. We tend to think of central government, organised labour and big business as 'the social partners' who need to reach consensus before policies can be implemented. Of course, they are important, but they are not the only players. If politicians or business are looking for more widespread support for a growth strategy, they should, for example, approach provincial and city governments. These levels of government are desperate for investment, growth and jobs in their areas. Or take the evangelical churches. They are very influential in all our communities, but they tend to be ignored in policy debates. In many of these churches, a lot of emphasis is placed on values such as individual discipline, saving, self-employment. There are many potential allies for a growth coalition who have not even been approached for their opinions. They deserve to be 'social partners' just as much as the big three.

• Business and organised labour continue to deadlock within existing political and social partnership forums. This deadlock would be broken if the voices of the unemployed were heard in these forums. The national negotiating process ignores the interests of the unemployed, even though there are more poor and unemployed South Africans than people in formal sector jobs. The unemployed have a strong community of interest with business – and small business in particular – in demanding greater labour market flexibility and more rapid privatisation of municipal services.

• Accelerated infrastructure development is necessary to stimulate growth and job creation. Public–private partnerships to create new infrastructure would address both business needs and government delivery goals. PPPs would improve business–government relationships at the crucial levels below established cabinet–big business contacts. An infrastructure programme could also very usefully be coupled to an expanded public works programme.

Getting infrastructure right

• When the government is deciding where to place new infrastructure, it faces a trade-off between infrastructure that will directly and quickly stimulate economic growth and infrastructure that is designed to bring better services to poorer and more rural people. Although the latter does stimulate growth to some extent, it can have unfortunate unintended consequences: for instance, people may not be able to afford the new services. By contrast, infrastructure development and maintenance in urban areas and around existing industrial growth-points will have a much more powerful impact on job-creation and development overall. Existing infrastructure should not be allowed to deteriorate in the name of equity. It is short-sighted to allow dramatic reductions in expenditure on the maintenance of existing transport, electricity, water and telecommunications infrastructure in historically advantaged areas in order to fund the construction of new infrastructure elsewhere. Valuable physical and human capital is rapidly lost in this way and will cost far more to replace.

White business people are concerned that their patriotism is wanted less than their remorse. In a world of relatively high capital mobility, they are unlikely to invest heavily where they feel unwelcome.

Can we create jobs at the rate we need if the colour of a few senior managers continues to be more important than whether the institutions they run effectively deliver opportunities to millions of South Africans?

***Professor Lawrence Schlemmer** summed up the discussion so far and argued that the question of racism needs to be re-thought:*

We have argued that government has to prioritise certain critically important key issues and concentrate on them, yet we've presented them with a smorgasbord of problems. We must try to pull some of these things together into clusters of issues in order to say something meaningful to the government.

- Government intervention. If the government intervenes too closely and frequently in the micro-economy, business begins to lose confidence in its rights to own capital and distribute profits freely.
- Perceptions. It's certainly not in their interest for business people to be so negative about the operating environment. What causes them to be cynical and negative about South Africa? Is it tax rates? Is it a sense of exclusion? Is it the sense among small and medium companies that unless they are prepared to pay for a certain degree of freeloading they'll never get a government contract?
- Infrastructure and human capital. We are chronically under-spending on economic services and infrastructure. Our education system is notoriously inefficient. We are actually losing capital, particularly in our CBDs and our road network.

But there's another complex of issues we haven't spoken about much so far. We have to ask ourselves, what can we actually do about racism? What are the costs of exploring local and international racism at great length in highly publicised official forums? Foreign investors may very well be racist in the sense of stereotyping African governments and administrations negatively. But we can't do anything about that. However painful it will be, we have to accept the existence of foreign racism and try to combat their ignorance in a positive way, rather than by complaining and scolding.

Is a productive, actively investing – but insufficiently repentant – white business community too high a price to pay for job-creating growth? White business people are undoubtedly patriotic but they are concerned that their patriotism is wanted less than their remorse. In a world of relatively high capital mobility, they are unlikely to invest heavily where they feel unwelcome. Surely, existing equity and criminal legislation is sufficiently tough to deal with incidents of racism. We've got to play up the fact that whites and blacks can work together. We also have to say to white kids, you will get jobs, you will not get locked out.

Achieving results – who should do what?

***Mike Spicer**, executive vice-president, corporate affairs, Anglo American, encouraged South Africa's diverse interest groups to communicate more frankly with each other. In that spirit, he urged the government to move more quickly on reforming immigration and minerals policy, to avoid over-regulation and, in partnership with business, improve educational efficiency and implement a public works programme:*

We need to break the politeness barrier. People in South Africa often pretend to agree with each other, but that's not a genuine dialogue. We have to trust each other enough to put our cards on the table. Fortunately, we are now closer to achieving open discussion among the social actors. The Business Trust and the Presidential Big Business Working Group have done a lot recently to create better communication. In that spirit, we must be really blunt about what the government needs to do to achieve fast growth and job creation.

We've spoken about the need for skilled immigration. Each year Parliament goes round and round on the issue. The Home Affairs Department is a bureaucratic nightmare. The effort required to get any kind of permission through Home Affairs beggars the imagination. We currently have the worst of all possible worlds in the area of migration policy. We are ineffective – as are most countries – at stopping unskilled immigration, but we are very good at preventing skilled immigration, and we also have rapid skilled emigration. This has got be fixed, and fixed quickly.

Mineral rights: we're now going into the fifth year of revising the mineral rights regime in South Africa. The process has got back on track now. The parties are at least talking to each other again. We can't be the world's most successful emerging market with a huge amount of uncertainty in this area, if the very fundamentals that have governed this industry for a hundred years are tossed up in the air. The mining industry has been kept in the dark about the new regulatory environment but is simultaneously told that it must continue to invest under rules it isn't allowed to know. We cannot have a successful society if the government continues to make decisions at this glacial pace.

The government needs a mechanism to help it avoid excessive regulation. Tony Blair's Labour government in Britain has created a process called a 'regulatory impact assessment.' This is the legislative equivalent of an environmental impact assessment study. All proposed new laws and regulations are assessed to see whether they are compatible with the government's over-arching goals on, for instance, job creation.

Regulating the regulators

'Our aim for Britain is to create an environment where businesses thrive and enterprise is rewarded. Alongside this, we must ensure that minimum standards exist to ensure fairness at work, safe products and a clean environment. In August 1998, I announced that no proposal for regulation which has an impact on businesses, charities or voluntary bodies, should be considered by Ministers without a regulatory impact assessment being carried out.'

Prime Minister Tony Blair, 9 August 2000

The Labour Government in Britain requires all government departments to undertake 'regulatory impact assessments' (RIAs) on proposed new bills and regulations. To ensure that RIAs are fair and thorough, the government has set up a Regulatory Impact Unit at the centre of power, in the Cabinet Office (equivalent to South Africa's Presidency).

Departments have to prove that they have considered all possible alternatives to regulation when aiming to solve a particular problem, including relying on 'consumer choice, competition and innovation,' improving the quality of government advice, allowing voluntary codes of practice or even abolishing existing regulations.

If it is decided that new regulations are, in fact, absolutely necessary, drafters are required to ensure that proposed new laws are:

- Transparent – simple, open, user-friendly, in clear language
- Accountable – to Ministers, Parliament and the public
- Consistent – with government's overall vision
- Targeted – having minimal side effects and unintended consequences
- Proportionate – made only when necessary, based on a complete assessment of the balance between costs and benefits.

Departments are told to 'think small first' when drafting regulations. The Regulatory Impact Unit reminds drafters that 'regulation can impact disproportionately on small firms' and requires them to show that they have accurately assessed the costs of proposed new regulations. Regulations must be designed to ensure that small firms, individuals and voluntary associations will find it as easy as possible to comply.

The RIA procedure is not a recipe for total deregulation. When thinking about the costs and benefits of regulations, departments are required to assess social costs and benefits just as carefully as the impact on business. The goal is to achieve better regulation, not less regulation – although 'better' and 'less' often turn out to be the same thing.

Is there an 'Investment Strike'?

'The business community has been on an investment strike since 1984.'

COSATU memorandum on job creation, 10 May 2000

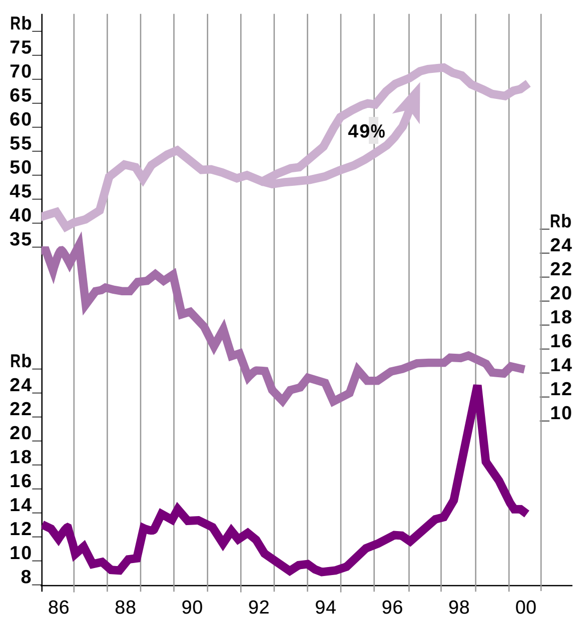
As a matter of fact, private sector fixed capital investment rose 49 percent between 1993 and early 1998 – and started rising again in 2000. By contrast, public sector capital investment did not respond as quickly to the democratic South Africa, nor has the public sector yet mirrored the upturn in capital investment seen in the private sector in 2000.

The figures simply do not bear out the charge of 'lack of patriotism' against the private sector.

It is true, though, that total fixed capital investment in South Africa has not been as rapid as in comparable countries. In the 5 year period 1995-9, South Africa's average rate of fixed capital formation was 16.6 percent of GDP. Egypt's rate was 19 percent, Brazil's 21 percent and Malaysia's 37 percent.[1] Both private and public sectors will need to invest more heavily to stimulate faster economic growth and to maintain public infrastructure.

[1]**Source:** World Bank, www.worldbank.org, 2001

REAL GROSS FIXED CAPITAL FORMATION (Rbillions)



Source: RMB Economics, 28 September 2000

The government is not communicating its successes effectively. For instance, a Business Against Crime meeting was recently told about a joint SANDF/SAPS raid on a number of 'chop shops' in Soweto. It was actually a stunning success, but the story filtered out into the media in a very diluted way. A lot of people were arrested and many thousand stolen parts were recovered. Think of the impact on public morale and investor confidence if this had been professionally communicated. Why wasn't a TV crew present when the helicopters moved in? The raid was an excellent example of political will and effectiveness. It should have been communicated in the best and boldest way possible.

Business and government need to form partnerships on improving educational efficiency and starting a nation-wide public works programme. The Business Trust's pilot projects for primary schools have proved very effective and could be a very useful model for primary schools in general. The idea of public works schemes is also attractive. It's not politically or socially acceptable to say that we'll talk about new jobs in five years time after the GEAR process is completed. There has to be some degree of intervention by a government–business partnership.

Points raised in discussion

The right signals

- What can be done? In the short term, we would benefit from 'low cost big hits' – signals that don't cost a lot to send, but that business wants to hear. There's a lot of power in a presidential speech. A commitment to establish the kind of regulatory impact unit that Mike Spicer has described, for example, would be a very strong positive signal for investors.
- Major privatisations really have to happen this year. This is the single most important signal that international inves-

tors want to see. Obviously there is resistance to privatisation from organised labour and from the SACP, but this is not an insurmountable obstacle. The government would find privatisation an easier sell if they engaged in a serious campaign of public education on the issue. Everyone knows that privatisations are good for business and useful in reducing government debt – but it's less widely understood that large-scale privatisation of state monopolies would be better for poorer South Africans too. Privatisations are accompanied by significant capital formation that spreads a lot of benefits very broadly throughout society. When privatisations introduce competition into a sector – as they should be designed to do – they almost always improve service levels for all consumers.

Better business strategy

- From the government's perspective business has not responded to GEAR as enthusiastically as it ought. Business says 'GEAR is fantastic – but we'll still just wait and see.' GEAR is not only about what the government does, it's also about what business does. Creating the conditions for success in a modern globalised economy is not purely government's responsibility. Business's attitude is wrong. If the government reduces the crime rate, business will say, what about property rights? Does any country have absolutely inalienable property rights? South African business–government relations should not be based purely on business 'check-lists'. We need a flexible, trusting partnership between business, government and other interest groups.
- Why hasn't organised business been able to influence the government to move away from inconsistencies and uncertainties? Business needs to be more sensitive to the pressures on the government from other constituencies. It needs to become government's partner in addressing the concerns of all South Africans. Wherever possible, business should also try to ally directly with other interest groups. Instead of thinking of ways to increase pressure on the government, business needs to find ways to make the government's job easier.
- Big business has invested billions in South Africa in the last few years. The 'investment strike' is a myth. The point is that our social problems are so great that we need 5 percent to 6 percent growth. We are getting 3 percent, which would be respectable in a developed country. We happen to need more. Vast numbers of business people have sacrificed enormous parts of their personal lives and their profits over the last few years in order to help our society live up to its promise. Business needs to be more aware of government's challenges, but the government also needs to realise that business has been doing its best in very difficult circumstances. All the 'social partners' need to raise their game – not just trying harder, but being efficient and more focussed on what is actually achievable in the short to medium term.

Growth for development

- Following a capital-intensive high-growth path could lead to increased inequality. The resources released by high growth must be directed, at least in part, at encouraging labour-intensive small enterprises, particularly in rural areas. We underestimate the quality of our land. We could have far more small farms than we do at present. They would be hugely reassuring to investors – a small farming sector is a guarantee of social stability and a vital social resource in periods of high unemployment.
- People shouldn't talk as if local business and foreign investors were only interested in growth prospects and are not at all concerned about inequality. Even in pure business terms, extreme inequality is

Major privatisations really have to happen this year. This is the single most important signal that international investors want to see.

Where would you invest?

'Tiger Wheels is the fifth-biggest aluminium wheel manufacturer in the world. We make wheels here, in Poland and in Germany. In Poland, the wage rate is about the same as here but the average employee is far better educated. In Poland one third of the employees' wages are performance related. Poland is profitable for us. In South Africa – our home – we are making losses. All levels of workers at Tiger South Africa, from top management all the way down – except the union level – said they were prepared to forgo any increase because of the economic situation. The union went on strike. The arbitrator ruled that they were entitled to a wage increase because the rest of the industry was getting a wage increase. Tell me, where should we make our next investment? Look, I'm sad about this, but tell me, which way is our Board going to vote?'

There have been over 500 legislative changes affecting business since 1994. Most of these were necessary, but this deluge of changes has introduced an enormous amount of new complexity and therefore new costs.

undesirable. Investors won't continue to risk capital in South Africa if there isn't sufficient consumer demand. If you don't address inequality, political instability results – and that pulls the carpet from under investment more quickly than anything else.

- South Africa's three main goals should be: achieving growth, reducing unemployment and reducing inequality. The example of the Asian 'tigers' shows we can do better on all three. Next, we need to decide what programmes should be implemented to achieve our goals. The first has to be the creation of a business-friendly environment. This won't cost any more money, it just needs more friendly, more efficient government. Second, we need very aggressive programmes to improve education and get skills development. We need to know exactly what is wrong at the primary and secondary school levels. We need to announce clearly that we are dealing with these things. If we can do that there will be support from the international community. Other necessary programmes are integrated rural development, small business development, infrastructure development, and implementing a job-creating public works programme in the context of these strategies.

SMMEs: prospects and limits

- The mainstream economy needs to get darker and more female. The government encourages small business development not just to create jobs and wealth, but to start getting black people and women into the mainstream economy. The vision is not of SMMEs forever. Small enterprise growth must develop into far greater control over the mainstream economy by historically disadvantaged people. Unless this happens, there will continue to be hostility to big business from those currently excluded from ownership of the economic mainstream.
- We very often pin our hopes on SMMEs. The reality is that successful SMMEs are skill intensive. We all believe that SMMEs are a critical plank of the growth platform, but we mustn't romanticise them. They only work in the medium term if the entrepreneurs running them are highly committed and highly skilled – and not just at their particular business, but also at navigating their way through the banking system, the tax system and so forth. This brings us right back to the need for better human capital. We need much more intense effort by both business and government to provide relevant, high-quality education and training. Without more effective training, our SMMEs won't flourish and, eventually, the mainstream of the economy that we have spoken about will just dry up.

Common vision required

- The idea of a simple statement to mobilise the energy of the country is very attractive. We need a long-term vision around which we can structure our shorter-term, more precisely defined specific goals.
- We should have a shared national

vision. But that's easier said than done. Countries usually only find a national will during a war or a huge natural disaster. It's very difficult to create that sense of a single national goal if you don't have a universally shared sense of crisis. Of course, we are confronted by a crisis, but it's slow-moving and diffuse. HIV/AIDS, unemployment, social instability and the costs of endemic crime combine, as it were, to form a crisis by stealth. By the time awareness is high enough to create a single national goal, it could be too late.

• South Africa's situation resembles that of a frog placed in a pot of water being heated on the stove. By the time it finally realises that this is not simply a warm bath, it's far too late to jump out. We don't need a war to create awareness of the difficulties we face. We need clear leadership from the Cabinet, the ANC and top business people. If they went around the country saying that we really do face a crisis, explaining why it is a crisis as serious as the one we faced between 1985 and 1994, and then communicating the policies that have to be adopted to respond to it, in a very short time South Africans in general would develop a common vision of our problems and of the steps we need to take to solve them.

Why invest in South Africa?

• Tiger Wheels is the fifth-biggest aluminium wheel manufacturer in the world. We make wheels here, in Poland and in Germany. In Poland, the wage rate is about the same as here but the average employee is far better educated. In Poland one third of the employees' wages are performance related. Poland is profitable for us. In South Africa – our home – we are making losses. All levels of workers at Tiger South Africa, from top management all the way down – except the union level – said they were prepared to forgo any increase because of the economic situation. The union went on strike. The arbitrator ruled that they were entitled to a wage increase because the rest of the industry was getting a wage increase. Tell me, where should we make our next investment? Look, I'm sad about this, but tell me, which way is our Board going to vote?

Business needs greater certainty

• Business operates best in a relatively stable environment. We've had so much change, people are thoroughly confused. Since the 1980s, we have gone from a cocoon economy to being part of the global village. Investment decisions made in the 'laager' economy have become very expensive when exposed to low tariff barriers. A similar point applies to our new labour regime. We can debate their advantages and disadvantages, but it is an undisputed fact that the new labour laws have radically changed companies' cost structures, resulting in even more scrapped capital. Business people are feeling burned. They say, 'Well, if I make a new 20-year investment, shouldn't it be in a country where there are fewer uncertainties?'

• The same thing has happened with public infrastructure. The government has refocused its priorities in the last six years, and a lot of capital intended to service existing infrastructure has been mothballed, scrapped or sold overseas. Iscor cannot make rail tracks anymore. It closed down that plant because Transnet stopped ordering. People don't want stop-go policies, they want consistency. Or drive through Johannesburg – you see all these fountains in the roads. Why? Because the Johannesburg Metro haven't replaced valves that have a seven-year lifetime in more than ten years. So, obviously, they've started leaking.

• It's not just our physical infrastructure that has been decaying. Some of our legal and economic institutions are also slowing

The new labour laws have radically changed companies' cost structures, resulting in even more scrapped capital. Business people are feeling burned.

down dangerously. The Masters of the High Courts, the Patent Office and the Company Registrar's Office are all increasingly inefficient. Decline in these socially and economically precious institutions has to be reversed.

- We need longer time horizons throughout society. That's very important to development. The government must make a firm, well-publicised commitment to stick to clearly defined policies and to make steady efforts to implement them. The adoption of the MTEF system in the area of fiscal policy has been widely welcomed by local and international economists and by business. A public commitment from the government to relative policy stability across a wide range of areas – along similar lines to the MTEF – would be highly conducive to job-creating growth. The government should think in terms of much longer time horizons for expenditure and planning than at present. This would prevent the destruction of valuable industrial capacity and create the confidence businesses need to commit to long-term fixed capital investment.
- Inflation is the classic creator of uncertainty and abbreviator of time horizons. The adoption of inflation targeting by the SARB is an excellent move. But the government could do even more. An increasing proportion of total inflation is made up of prices in which government decisions play a direct role. The most important administered prices are fuel prices, but government also sets some prices in health and education, for example. Although it's not easy to reduce the rate of increase of administered prices, they do lie, at least in part, within government control. We might be able to reduce some of the inflation pressure we experience simply by looking very carefully at the institutional environment in the public sector. Greater efficiency in public health care, for instance, may slow inflation in a less painful way than high real interest rates applied throughout the economy.
- There have been over 500 legislative changes affecting business since 1994. Most of these were very necessary, but this deluge of changes has introduced an enormous amount of new complexity – and therefore, new costs – into the business environment. The rate of legislation needs to decrease. Parliament should focus on monitoring government performance and the implementation of existing Acts rather than creating yet more hoops for business to jump through. And, of course, any new proposed legislation should be rigorously tested against our national goals.

> *'Why don't we experiment with public vouchers for schooling that empower poor parents to behave the way that richer parents do?'*

Summary

Why is South Africa failing to get the growth and jobs that it needs?

South Africa has not created an environment that encourages the maximum possible investment, entrepreneurship and job creation. What is wrong? Our discussion indicates three broad areas in which we are failing to get it right:

Business confidence is low

South African business managers are not sure that the country provides the best place in which to commit their capital and themselves over the long term. Why?

- Inflexible labour market which increases costs and hassle.
- Employment equity regulations cost too much. Smaller businesses cannot afford the costs of compliance.
- Deteriorating infrastructure essential for business success.
- Deteriorating institutional efficiency necessary for effective businesses.
- Inefficient and declining justice system.
- Unconvincing approach to combating crime.
- Too many changes, too quickly – over 500 changes to the regulatory environment for business in past 6 years. These add to costs.
- Government's intense focus on race leads to unease concerning minority inclusion in 'the new South Africa'.
- Race is too often seen as more important than competence to deliver.

Government has too many priorities

The government is trying to fix everything wrong with South Africa, the continent and North/South relations simultaneously. But our capacity as a country is limited and signals get mixed up:

- the president spends too much time and effort on foreign affairs
- the president spends too little time in South Africa using his prestige and position to promote his own philosophy of work and discipline and persuading the country to make the hard choices necessary for growth
- government does not speak with one voice on growth and jobs as the benchmark for all government actions. The result – market-friendly messages are frequently cancelled out by anti-market approaches and sentiments
- government's reach exceeds its grasp. In trying to do too many things at once, government often fails to achieve
- government now suffers from a growing credibility gap with respect to delivery. Too many unfulfilled promises have led to public scepticism about ministers and their departments' capacity to get results.

Growing shortage of skills

There seems to be insufficient appreciation of the crisis enveloping South Africa with respect to skills:

- the country is losing skilled people through emigration at a rate unprecedented in South Africa's history
- the education system is producing a declining number of skilled people
- migration policy discourages skilled immigration
- AIDS will have a negative effect on skilled South Africans
- The result of this severe shortage is that skills in South Africa are too expensive.

Summary

Achieving results – what must be done?

New paradigm required

Governance through 'transformation idealism' will not work. Tough choices must be made.

- More of the same will not be good enough. A smaller government agenda is essential.
- Government must recognize limits and choose a few initiatives that can be done well.
- Deepen the business–government relationship. Explore mechanisms to bring in private sector capacity with accountability and transparency to help achieve results.
- Professionalize government communications. Stop underselling achievements and progress within the country and outside.

Develop and market a common vision for all South Africans

The country needs an inspiring vision of where we are going and what kind of society we are trying to create. This will provide a benchmark against which all decisions can then be tested and priorities made.

- The most important contribution South Africa can make to an African Renaissance is to be a glowing economic and political success.
- The only way to do that is to implement the president's goal of making South Africa the 'world's most promising emerging market' and use this as the benchmark for all government decisions.
- South Africa needs common goals that all can subscribe to and work towards.
- Ensure that all South Africans black and white feel they have an important part to play in making the country an African success. Inclusive gestures and actions by the President and other members of cabinet are urgently required.
- Government must seize the high ground and convince citizens and investors that it is really committed to market-led development and has fully accepted all its implications.

Get rid of the obstacles to growth and job creation

It is striking that almost every one of the obstacles identified by business to greater confidence and thus a higher growth rate, are in the government's power to change.

- Before new incentives are implemented make sure that current obstacles are removed.
- Establish a joint business–government task force to ensure that this happens – a confidence boosting act on its own.
- Aggressively choose priorities in which to achieve short term results and take the bold actions necessary. these must include:

– human capital production (skills, schooling, tertiary education)
– infrastructure for economic growth
– effective urban strategy
– realistic rural strategy
– believable anti-crime and corruption strategies
– act quickly to open up the labour market
– new 'open door' migration policy; launch an intensive campaign in other countries to attract skills to South Africa; encourage South

Achieving results – what must be done?

Africans to stay and build rather than leave
– reassess health strategy to arrest decline in teaching hospitals and quality care.
- Build a political coalition for growth and ensure government has the allies it needs to back the tough decisions necessary for economic success and sustainable delivery.

Combat poverty directly

The tough decisions needed to remove the obstacles to growth must be taken. The realities of long term unemployment need to be directly addressed.

- It will take years of above average growth rates to provide the jobs, resources and opportunities that millions of people require.
- In the meantime ensure that poorer South Africans have a means of sustaining themselves. All over the world the idea of 'handouts' as a form of poverty relief is being rejected. A far better route for South Africa is to expand our public works projects and scale up.
- Aim to offer every South African who is willing to work an opportunity to participate in a project building infrastructure in our cities, towns and rural areas at a modest wage. This will involve scaling up on present efforts and require considerable experienced management skills from the private sector.

Almost every one of the obstacles identified by business to greater confidence and thus a higher growth rate, are in the government's power to change.

Concluding remarks

***Ann Bernstein** summed up the discussion:*

Clearly, there is a great deal to be done, both by business and government, if South Africa is to achieve the high-growth path we so badly need. However, it is also clear that just 'trying harder', but in the same vein as the past, will not solve our problems. We have neither the skills nor the capital to achieve all our economic and developmental goals if we attempt to reach them all simultaneously. The participants in this discussion have consciously tried to avoid producing a long list of things that need to be done by government and business but we have still come up with a pretty extensive inventory of the problems that need to be addressed.

This is all the more reason to stress that we need to move away from a 'shopping list' policy approach. We must think in terms of an over-arching organising principle from which policy decisions flow logically and defensibly.

In the eighties, when we were discussing anti-apartheid strategy, we used to say, 'We're looking for the single brick which, if pushed out of the wall, will cause the whole wall to fall on its own.' In some ways, our national task is much harder now. We are now looking for the three or four pillars around which a whole lot of other structures will develop organically without our having to focus on them immediately.

Market-led development is not free-market dogmatism.

Fortunately, we know what our overarching principle should be. It is best expressed by President Mbeki himself – we need to make South Africa 'the world's most exciting emerging market'. The crucial word here is 'market'. We should commit ourselves whole-heartedly to market-led development. Of course, this won't be easy. Businesses will discover that this commitment requires them to compete against the world's most efficient companies. The government will undoubtedly find this vision a 'hard sell' in several of its constituencies – but, as has been pointed out, it certainly isn't an impossible sell.

Market-led development has natural constituencies, including local and regional governments and communities, urban and rural entrepreneurs, unemployed workers and popular religious movements, which have yet to be tapped by government or organised business.

Furthermore, it will be absolutely necessary to make clear that market-led development has to be accompanied by – in fact, depends upon – our ability to alleviate the kinds of social pressures that arise from mass poverty. Participants in this Round Table come from a wide range of backgrounds, but agreed that South Africa needs much more ambitious public works programmes than at present. Market-led development is not free-market dogmatism.

A successful approach to economic and social reform must therefore entail a package of determined initiatives. These include:

- *A resolute focus on economic growth and on ensuring that everything government does is centred around this imperative.* A core team reporting directly to the president is required to monitor progress in the growth strategy, deal with problems and ensure consistency throughout the cabinet in programmes, actions, speeches and signals. This is a key area for a public–private partnership with executive responsibilities, clear accountabilities and public commitments concerning targets. There is no better way to build business confidence and ensure the capacity to achieve the results we desperately need.
- *An understanding of the relationship between effective social policies and market led development.* Why is there such faith in the capacity of the state with respect to health and education? We need to start thinking much more radically about the role the private sector can play in the delivery of schooling in particular. Why continue to assume that the single largest item in the national budget can be effectively managed and spent by a large and unwieldy bureaucracy constrained by national teacher unions? Do we really believe that significant improvements in the quality of schooling for poorer South Africans can be achieved with more of the same state-driven, 'lowest common denominator' approaches? Why don't we experiment (in one part of the country initially) with public vouchers that empower poor parents to behave the way that middle class parents do? Vouchers that entitle every poor parent to a guaranteed sum of money per child enable poor parents to become a 'grass roots' pressure

Professionalize government communication

'The government is not communicating its successes effectively. For instance, a Business Against Crime meeting was recently told about a joint SANDF/SAPS raid on a number of 'chop shops' in Soweto. It was actually a stunning success, but the story filtered out into the media in a very diluted way. A lot of people were arrested and many thousand stolen parts were recovered. Think of the impact on public morale and investor confidence if this had been professionally communicated. Why wasn't a TV crew present when the helicopters moved in? The raid was an excellent example of political will and effectiveness. It should have been communicated in the best and boldest way possible.'

group. Voucher-empowered parents vote with their feet away from terrible schools and, in this way, create demand for quality education.

- *A direct focus on poverty* through a much expanded public works programme building infrastructure in rural and urban areas. This will provide hundreds of thousands of South Africans with a regular job for the first time in their lives.
- *A celebration of entrepreneurship and wealth creation* which develops a national culture that affirms that 'Any South African who works hard can succeed.'
- *A recognition that South Africa is an urban economy* and that the health of the nation depends on thriving and competitive cities. This will require an effective urban strategy that combines targeted investments in world class telecommunications and transport infrastructure with sustainable and affordable delivery to the poor.
- *A realistic rural strategy* that aims to maximise the contribution of the rural sector to national economic growth, reconciliation and development.
- *A political strategy to build a growing coalition of interests supportive of the president a*nd his ambition to make South Africa the world's most exciting emerging market. This will require recognition of who will benefit and who will lose as South Africa changes for the better and the creation of firm allies for a growth oriented approach. This coalition will necessarily include diverse interests who can see the benefits of a successful market economy.
- *A professional approach to communicating government and South Africa's achievements.* This needs to be done systematically within the country and externally. The political benefits of excellent communication will outweigh any negatives from a change of existing personnel. Once the commitment to market-led development has been made, and sufficient consensus has built up around it, specific policy choices become relatively easy to make and to follow through into action. We need to focus on constructing the pillars of growth now and, quite deliberately, place a lower priority on other desirable goals until these core polices are firmly in place.

What are the pillars of growth? Our participants have identified some of them:

- more efficient human capital production. We need to create the skills that will make us competitive in the global economy. Education reform must be designed with this outcome in mind above all others. Actively encouraging skilled immigration and discouraging skilled emigration is also vitally necessary
- a more open, trusting and flexible relationship between government and business at all levels, in which both understand the constraints within which they operate.
- rapid infrastructure development, designed in the first instance to stimulate economic development rather than to bring about social equity
- much longer time horizons for government planning and expenditure than at present. This would prevent the destruction of valuable industrial capacity and create the confidence businesses need to commit to long-term fixed capital investment
- a series of positive signals from government on issues that damage business confidence. In particular, these should include major privatisations actually happening in 2001; complete liberalisation of the currency market; firm, unequivocal and repeated condemnation of the violations of human rights that continue in Zimbabwe; and a re-commitment on the government's part to tolerant racial inclusivity
- a determined government focus on a few selected critical areas in which we can deliver results. We must curb our ambi-

We have neither the skills nor the capital to achieve all our economic and development goals if we attempt to reach them all simultaneously.

tions. We cannot be a world leader for long if our own society is in trouble. South Africa needs its president at home tackling the critical obstacles to growth and ensuring delivery that is sustainable and has a large scale impact. We don't have the capacity for anything other than essential foreign policy goals. The president should be constantly inspiring and leading all South Africans to work hard, understand what he is trying to do, and feel that they – black and white – all have an important part to play in building a great country.

The bottom line is this: if the government is serious about a market-driven approach to growth and poverty reduction, it should employ the immense skills that it used in opposing apartheid to think through and then sell that approach to all its constituencies and audiences, both locally and internationally. But you can't be ambiguous about the market and still get results. The people who lead South Africa have to believe that this is the only way to create a better life for all. They have to commit themselves whole-heartedly to market-led development and structure every government policy and signal around that choice.

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Leadership is required

'South Africa's situation resembles that of a frog placed in a pot of water being heated on the stove. By the time it finally realises that this is not simply a warm bath, it's far too late to jump out. We don't need a war to create awareness of the difficulties we face. We need clear leadership from the Cabinet, the ANC and top business people. If they went around the country saying that we really do face a crisis, explaining why it is a crisis as serious as the one we faced between 1985 and 1994, and then communicating the policies that have to be adopted to respond to it, in a very short time South Africans in general would develop a common vision of our problems and of the steps we need to take to solve them.'

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