

## Speech to Graduate School of Business Dinner, University of Cape Town

### Minister of Finance, Trevor Manuel

Good evening.

I want to talk tonight about feelings. Not really in a nineties, or millennium male way – this may not be quite the place for it – but about our feelings about each other and about our feeling for our country.

I have been fascinated recently with the strength of perceptions – not only how they can, albeit for a short time perhaps, rule objective reality, but how they dominate discourse to the extent that they become reality.

If this seems a little too navel-gazing, let me turn to a philosopher for help: the Italian academic and novelist, Umberto Eco, both cheeky and profound, had this to say in summing up a kind of corporate image of the United States.

He talks about a “secret America” snubbed by European and American intellectuals, but that nonetheless creates a “network of references and influences that finally spread also to the products of high culture and the entertainment industry...

“We can identify it through two typical slogans that pervade American advertising. The first, widely used by Coca-Cola, but also frequent as a hyperbolic formula in everyday speech, is “the real thing”; the second, found in print and heard on TV is “more” – in the sense of “extra”. The announcer doesn’t say, for example: “The program will continue”, but rather there is “More to come”. In America you don’t say “Give me another coffee,” you ask for “more coffee”; you don’t say (with apologies to the Health minister) that cigarette A is longer than cigarette B, but that there’s “more of it, more than you’re used to having, more than you might want, leaving a surplus to throw away – that’s prosperity.”

Eco goes on to ask why the attempt to satisfy the national demand for the “real thing”, ends up fabricating, not realness, but the fake. Why, for instance, is Disney World’s recreation of New Orleans, “more real” to some than *actual* New Orleans?

He talks about it as a journey into hyperreality.

Here we have a more serious perception problem to deal with. Our hyperreality, sometimes expressed by our own business people, is not castles in Disneyland or wax museums that make the past seem more glamorous, and more real. It's something much grimmer. It makes good things seem worse. We have a tendency, sometimes, to talk past each other, even though we've spent the past decade practising how to talk to each other. But we still are not talking quite the same language.

Is it fear that blinds us, or makes us deaf?

There are huge objective changes that have taken place in the economy since 1994 – changes that continue to take place. Yet the perceptions of what are called “the markets” do not reflect those changes.

Here's one example: recently the World Economic Forum put out the Africa Competitiveness Report for 2000/2001. The report does two things: it ranks countries according to criteria gleaned from interviews with business people – in other words, according to perceptions. In the overall competitiveness index, we rate 7, behind Tunisia, Mauritius, Botswana, Namibia, Morocco, and Egypt. Some of the index is constructed out of ratings on objective criteria.

But listen to those rating which are constructed almost entirely on perceptions.

In the “Improvement Index” for instance, from 1996-1999, constructed from questions about “a direction of change”, we come 17 out of 24. And in the “optimism index”, we rank 18 creeping in just above Zimbabwe, Swaziland, Cote d'Ivoire, Mauritius, and Namibia.

But on the basis of objective criteria, we are rated near the top in openness to trade, 11<sup>th</sup> on low tariffs (out of 24), we're in the top ten on lack of import barriers, and on the availability of foreign exchange. On export credit to encourage firms to export, and on exchange rate policy, on corporate tax, and personal income tax, we score good marks, and we rate highly in the quality of infrastructure and telecommunications.

It seems, from where we sit in government, that there is a contradiction between empirical measures and South African business views.

The question is why?

Perhaps this is not unique to South Africa. Markets tend to be driven by perceptions, rather than by vision based on reality, and before anyone accuses me of disrespecting the role of the markets, allow me to quote the Economist to you. This week that magazine ran an article on technical analysts called “Heads, shoulders and broadening bottoms.”

The headline is not a description of the analysts’ physiques, but rather a description of the shape of the market charts that they analyse. The head and shoulders are a big peak surrounded by two smaller peaks, and the broadening bottoms are not what happens to their posteriors sitting behind computers, but, the Economist explains, a series of troughs, each lower than the preceding one.

The magazine makes the distinction between analysis of real empirical trends, and the short term analysis of these so-called technical experts in the following way: “Economists who study financial markets have long regarded technical analysis as mumbo-jumbo, bearing much the same relationship to rigorous economic “fundamental analysis” that astrology does to astronomy.”

In other words, we’re dealing with feelings masquerading as reality.

Let’s look at the steps we’ve taken in the past four years to stabilise the macro environment, and to promote investment and growth.

On the fiscal side, we have the lowest deficit —at 2.38% -- that we’ve had for more than a decade. We should remind ourselves what it was in the dying days of apartheid – over ten percent.

On the monetary side, we are pursuing disciplined policies. We have set an inflation target for 2002, and the Reserve Bank is using the clout and the instruments given to it by the constitution, to achieve this.

We are concentrating on creating this stability and certainty, precisely so that business can make rational decisions in a stable environment. Price stability becomes absolutely key in creating this kind of environment.

On the trade front, we have lifted, and will continue to lift a host of barriers in the form of tariffs and import duties on trade – the latest being the free trade agreement signed with other SADC countries last month.

We are putting policy energy into clustered, rational industrial development, which will also allow the growth of small and medium enterprises. The corridor developments and the spatial development initiatives are examples of this.

We have also put energy into restructuring the labour market, making it easier for small business and particularly the hospitality industry – a major potential growth engine -- to operate competitively.

I know the labour market – and our supposed inflexibility – is a major hobbyhorse for some, and I should pause here to ask you to consider another major factor inhibiting employment.

That is the lack of skills in our economy.

It is clearer than ever before that education and skills help people get jobs. University of Cape Town economist Haroon Borat has calculated that, between 1970 and 1995, employment for people with tertiary education rose by an astonishing 2000%; but the demand for the labour of those without matric fell by 24 percent. This means that where jobs have been created in South Africa, over the past thirty years, they have been mainly jobs for skilled people.

By far and away, it is African youth who are disadvantaged in the job market – and more particularly women -- by the historical legacy of unequal education, a legacy created by a legalized system of racial discrimination and oppression.

We are not saying this to make people feel uncomfortable or never to let go of the past, but to remind ourselves that we are ALL left to deal with this burden. Because not only does this country belong to all who live in it, but all who live in it should take equal pride in our achievements and equal responsibility for the challenges that face us. If we are to go forward, and succeed and be prosperous, we have to do so together.

It was an attitude summed up by Michael Spicer yesterday on the radio when he was asked how one of the key business leaders of the last century, Harry Oppenheimer, would like to be remembered. He replied: “In the creation of a prosperous, democratic successful South Africa.”

Harry Oppenheimer was that sort of South African. He spread his business interests around the world, but his heart and soul and physical being remained here, in South Africa, on African soil, until the day he died.

The ingredients of that success and prosperity are not only that some of us are comfortable. They are that we begin to give those who have been voiceless, voices, and give meaning to those voices in the form of a decent life: houses, electricity, water, education, health, and jobs.

We have a long way to go, but we have scored important successes in this arena, success, which, because they made a difference in the lives of those whom the years have silenced, have perhaps not made sufficient impact with those who take investor decisions.

But since 1994:

- More than nine million people now have access to clean water.
- About 1,5 million more households have access to electricity
- The literacy rates of 15-24 year olds now stands at 95%, and the ratio of male to female enrolment in schools is 1:1.08 giving us a real boost in our chances to develop
- The government has built—no, not one million houses – but 983 943 houses for people who had no formal shelter before. Its worth reminding ourselves that the largest public housing program hitherto was in Singapore where they built 585 00 units over a 26-year period.

The point about these achievements is not to pat ourselves on the back, but to remind ourselves how far we've come. Its also apposite, though, to remind business that without a stable, housed, educated people, none of us – least of all business - have a stable or prosperous future.

That's why the challenges that face us do not face government alone: they face al of us. We've come a long way, but we still face the challenges:

- Of not enough direct foreign – or indeed domestic – investment that can create jobs
- of a particularly severe problem with youth unemployment, a problem related both to the low levels of direct investment but also to the extremely poor skills level in our economy. Latest

figures estimate that nearly six million youths – most of them African – are unemployed. Almost half have never been in paid employment

- Of crime, although here the perception sometimes tends to blur the reality. But this is not to say we cannot take and address the challenge as seriously as our joint resources allow us to do.
- Of the tragic epidemic of HIV/AIDS, exacerbated by the specific features in our society such as the continuing discrimination against women and the poverty that makes containment of the epidemic so hard
- Of the continuing unequal access to wealth and, indeed even to the formal economy, by black people.

We need to think seriously about how institutions such as the GSB can contribute towards our joint development, both in terms of raising the level of the skills in our society, and in terms of thinking of the establishment of businesses that can best contribute to our growth, our global competitiveness and our ability to provide our people with jobs.

We are not unique in Africa. As a continent, we suffer grievously from the flight of skills and capital. This may be partly due to the historical legacy of colonialism, which trapped economies in fairly primitive stages of development, and also partly to the fact that many countries never developed the sound quality of public institutions necessary for good governance.

In South Africa we are blessed with fine institutions, with a wealth of talent in many spheres, not least in business, with a morality that has driven most of us in government to understand that we really are here at the service of the people who have imbued us with our powers.

We need to understand better the reality that we have created out of our grim past, the challenges that still face us, and the difference between that new reality and the prophets of doom who rely largely on the power of perception.

We need belief in ourselves – and we need sound understanding -- all of us, to turn our country into the success story that it can be.