Executive leadership in contemporary South Africa

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When you embark on a journey such as South Africa has done, a rebuilding of the State on new moral and democratic foundations, a thorough rewriting of public policy and law, a reinvention of the relationships between state and capital, between state and citizen, between state and taxpayer, and indeed between state as provider of services and reflexively as guardian of those rights and civil liberties that in turn depend upon service delivery – when you embark on such a journey, there are times when you are following a road map and there are other times when you are hacking your way through the jungle.

There are different kinds of leadership for different stages of the journey.

When the road ahead is well charted, there is a need for persistence, even stubbornness, to avoid deviating from the course when things don't go quite according to plan. But when circumstances change significantly, or you move on to new challenges, creativity and innovation come into their own.

In pursuing our programme of macroeconomic consolidation and restructuring of the public finances over the past decade or so, we have had clear road maps – the Reconstruction and Development Programme, and later the Growth, Employment and Redistribution framework – but there have been pot-holes and pitfalls that could not have been anticipated: the intractability of the structural unemployment challenge of our economy; the huge swings in international financial and foreign exchange markets of recent years.

And at these times, there are difficult judgements to make – do you stick to existing plans, or do you adapt and innovate, carve out a new path through the bush?

For the last decade, it has been pretty clear what we have had to do. We have to build the foundations for a just society, and for a growing economy.

The 1996 macroeconomic strategy had its elements of obscurity – "an appropriately structured flexibility within the collective bargaining system" – but for the most part it was a clear set of road-signs. Budget deficit reduction, gradual exchange control liberalisation, tax incentives for investment, introduction of skills development funding, tariff reductions, a monetary policy framework clearly focused on inflation reduction. The strategy had its controversy and its vocal critics, and there were some uncertainties about targets and sequencing, but the macroeconomic and fiscal imperatives were stark. Although the growth trajectory has not been stellar and employment performance has been inadequate, the structural foundations of our economy have been greatly strengthened.

Over the past decade, the economy has grown by 3 per cent a year, compared with just 1 per cent a year between 1984 and 1993. Investment has increased by 4,7 per cent a year, compared with 2,9 per cent in the previous period. Price inflation is now below 6 per cent a year, compared with nearly 15 per cent. The budget deficit is around 3 per cent of GDP, whereas it was 7,2 per cent in 1993. Over the past 10 years we have seen capital inflows from the rest of the world of R170 billion, compared with net outflows of R46 billion in the previous decade.

And across a broad spectrum of social and development challenges – housing, municipal services, land restitution, access to health care, extension of the social security net, protection of workers' basic rights, access to legal aid, financial assistance to students – we have made material progress in addressing poverty and implementing programmes that begin to redress the injustices of the past.

In all of this, we have had the advantage of knowing where to go.

We had to consolidate the macroeconomy, the transformation imperative in social policy has been clear.

In the challenges of the decade ahead, there are signposts and sometimes lessons of international and local experience to draw on, but the terrain is rather less well charted. The journey becomes more diversified, more complex, perhaps more contested. Once the foundations are built, the architectural possibilities are more varied. Creativity and innovation come into their own. But the risks and rewards are often less direct, analytically more demanding.

And so, successful pursuit of economic growth and social progress depends that much more on the quality and capacity of our higher education institutions and research councils. "Walking the talk" in a changing world – the theme of your discussions tomorrow – is right at the centre of the public policy challenge we face over the decade ahead.

Let me share with you a few thoughts on some of the elements of this larger project of reinforcing and sustaining economic growth and rising living standards.

Progressive broadening of the income security net, revitalised health services and targeted poverty reduction initiatives

Poverty reduction and redistribution are clearly core priorities in our public policy stance, and there is clearly merit in pursuing these challenges in targeted and progressive ways – although there is also an intellectual appeal in approaches that aim to be universal and inclusive in their reach – but is there anything here that contributes to growth?

There are legitimacy and sustainability considerations. The argument is familiar and hardly contentious – a society as divided, fragmented and unequal as ours cannot take confidence in its economic strategy unless it is accompanied by tangible and real advances in the circumstances of the poor. The state exists as a collective in part to provide collective relief to the disadvantaged. There is a great store of good old-fashioned liberal thinking to draw on here – but there is also that close intertwining in the intellectual and institutional roots of modernisation between civilisation and growth: not so much that modernisation brings civilisation as that growth can be a profoundly uncivilising dynamic if it is not accompanied by deliberate redistributive thrusts. Witness the impact of forced enclosures in industrialising Britain and Europe, or John Stuart Mill's mild reminder 150 years ago that there was something deeply unsatisfactory about a society that made more generous provision for its convicted felons as for its honest poor – and this long before penal reform of any consequence.

That South African growth was for long accompanied by powerfully uncivilising dynamics is the subject of an extensive and rich literature; that our economic strategy going forward needs to correct this legacy has been forcefully argued by some of the Treasury's fiercest critics. I do not want to sweep these arguments away just because they are sometimes overlaid with macroeconomic ambitions that I find implausible. The challenge is to address inequality and injustice while also adhering to sound and sustainable fiscal and financial principles.

A national skills development strategy, focused on productivity enhancement and learning opportunities for the unemployed

We have introduced a levy scheme and an entire bureacractic apparatus to give effect to the skills development imperative. It is easy to find fault with the parts of the system that don't work, or the cumbersome procedures, or the unnecessary duplication of the old training systems that worked well enough.

When you phase in something dramatically different like this, you need an overwhelming array of instruments to give impetus to the new direction. So we have added a tax incentive to promote registration of learnerships. When the momentum has been established, the tax break may well be withdrawn and the time may even come for a revision of the structure of SETAs and the skills levy. But for now, the emphasis clearly needs to be on reinforcing the formal education institutions that are such a critical complement to work-based and experiential learning. Revitalising the technical and vocational colleges has rightly been prioritised by the Business Trust, and I hope that the restructuring of our further education colleges in the years ahead will also benefit from the new skills financing arrangements.

Does training contribute to growth? The textbooks say yes and there is a good weight of analytical evidence in support; whether we reap the rewards of our non-trivial investment of fiscal and social resources into new training and skills development programmes depends on several institutional dynamics that are not yet well worked out. This is partly about the information flows and incentives and choices or opportunities that link school, college, first entry into the work place, career choice and further career development. It is hard to imagine a cluster of issues more important and less well understood.

Redistribution and restitution of land, coupled with investment in rural development and agricultural support services

One of the largest increases in the national budget in recent years was for Land Affairs, mainly for the land restitution programme. It is about half way through a caseload of just under 70 000 land claims, and in due course spending on the broader land reform programme and associated agricultural support will replace restitution as the main priority on this vote.

We all know that productivity advances and sustained progress in industrial competitiveness depend critically on developments in the training environment and the labour market. But on the land and in our approaches to agrarian reform we face social and human challenges at least as daunting. There is no importable substitute here for raw indigenous creativity, and we have seen a good number of encouraging initiatives in recent years. Redistribution of land ownership, coupled with adoption of productivity-enhancing farming methods, is as critical as any other success factor for the decade ahead. Its human dimensions are not yet sufficiently prioritised in our growth and development debates.

Public administration reform, founded on respect for citizens' rights, courteous and efficient service delivery, modernisation of systems and honest, accountable governance

Human dimensions loom large, again, in the public administration reform challenge. As in the agrarian case, there is a tension between modernisation and the robustness of practical reforms. Are our systems simple and reproducible? If not, is there any other reason for confidence that they can be implemented? Public administration is, after all, the aggregation of the daily activities of a million people whose ordinary lives are far too pressed and harried to allow for sustained efforts to create and steer service delivery improvements. We have to rely rather on institutional and system changes that, so to speak, "sell themselves" – that insinuate their way into public practice by virtue of their simplicity and elegance.

It is worth reflecting for a moment on the great administrative innovations we now take for granted. Double-entry book-keeping stands out as a watershed. In the evolution of the tax capacity of the modern state, the idea of withholding was perhaps the single most powerful reform. And in the evolution of social policy, the introduction of reciprocity into fiscal arrangements: the attachment of defined rights or benefits to identified contributions or tax payments, to provide income security during unemployment, or after retirement, or to assure access to health care.

There is little doubt that the present social security and health care financing arrangements in South Africa are sub-optimal, and this is likely to be an arena of considerable invention and reorganisation in the decade ahead. It is hard to think of any public policy challenge of quite such importance and complexity – employers, workers, communities and the state have large overlapping interests and concerns, and there are unavoidably long lead times and transition problems.

Work currently in progress on restructuring medical assurance arrangements for the public service provides an opportunity to test ideas that may have wider application. This is a complex challenge, nonetheless success will depend heavily on designing a sufficiently straightforward implementation framework. But there also needs to be progress in streamlining and improving numerous ordinary and traditional administrative and social services – managing libraries, collecting municipal fees, stocking hospital pharmacies, recording births and deaths. Modern information technology opens up potent opportunities, but administrators and managers need to make the systems work.

Investment in infrastructure, technology advancement and industrial expansion, in partnership with the private sector

Re-engineering and improving the delivery of public services requires intelligent systems and capacity building – so also for the wider economy: investment in infrastructure, adoption of improved technologies and industrial expansion require strategic and skilful leadership. The profit motive is a powerful ally in this, but there is also a bureaucratic dimension to both stepped up infrastructure investment and enhanced research and development.

Over the past few years there has been strong progress in capital spending by national government and provinces, and by parastatals such as the Airports Company and parts of Transnet. Private sector investment has also gathered momentum, including several manufacturing sectors and rapid growth in telecommunications systems.

What are the critical coordination challenges?

One is the alignment of bulk physical infrastructure with industrial and other economic opportunities. Progress is being made in several industrial development zone projects; there are also important long-term investments in transport systems under way; and we need to improve the spatial planning and investment coordination of our cities and major development nodes.

There is also an interesting challenge in the evolution of IT and communication systems – taking advantage of the opportunity to broaden participation in the banking system by appropriate extensions to ATM networks, for example.

In these and other long term development trajectories, the regulatory environment and contractual partnerships between government and private business participants are clearly fundamental. In some of our more structured public-private partnerships – long term IT service contracts, toll road concessions and accommodation and facilities management partnerships, we are now pushing out the frontiers of international best practice. There are long hours and hard work involved in negotiating these arrangements, but this is surely one of the most important kinds of investment we can make in a better future. The recent publication of draft "standardised provisions" for

PPPs is a particularly exciting step forward, which should lead in time to greater certainty and more streamlined negotiation processes in this complex interface between the public and private sectors.

Strengthening the fight against crime and combating corruption

Fighting crime and combating corruption, of course, are also important dimensions of the public-private interface. We have all been touched one way or another, have shared the anger and fears that accompany mindless violent crime, and we have wondered how these spirals of disaffection and depravity are to be contained. Business Against Crime is one of our most valuable cooperative partnerships, and the challenge of streamlining systems and improving performance is nowhere more important than in the criminal justice system and our courts.

Perhaps the strengthening of our justice system and the opportunities for constructive partnership between the official police and prosecution services and the private security and forensic industries should be more prominent on the Growth and Development Summit agenda.

The contribution to growth and economic performance of an improved justice system is far from trivial. There is the direct benefit in reducing the costs of doing business, reduced losses from crime, reduced fraud and reduced insurance expenditure. There are indirect effects, including bringing activity back into the realm of legitimate measured productive economic output. But far more important, there is the qualitative improvement in living standards, for a given level of income or wealth – and these benefits of reduced crime and violence would very largely go to those who are poor, whose prospects of rising beyond poverty through accumulation and honest effort are so easily crushed by crime or corruption.

Widening access to financial services, integration of small businesses into the formal economy and further easing of the tax burden on low and middle-income households

Here is a cluster of issues focused squarely on President Mbeki's challenge that we need to grow the number of people capable of meeting their needs and improving their circumstances through normal participation in working life.

Speaking frankly, neither the extension of financial services nor small business development policy have been well managed in the past decade. The liberalisation of the micro-credit industry was premature – and some of our foremost banks continue to exploit the absence of appropriate disclosure and restraint on lending terms through operation of micro-credit subsidiaries unscrupulously. The demise of most of the second tier banks should not have been a surprise. As the dubious lending bubble expanded the quality of clients deteriorated, implicit interest rates rose and the system propelled itself inexorably to a catastrophic meltdown.

One public policy priority here needs to be the extension of saving and transmission services to the unbanked, drawing perhaps on both the present Post Bank infrastructure and the ATM commercial bank network. There are hopeful signs that something along these lines will emerge from the Financial Charter deliberations.

Lending at offensive rates of interest to poor people is no substitute for responsible community development finance. In thinking through our options for attracting commercial investment and services into otherwise desolate low-income housing estates, the critical challenge is to find ways of bringing serious private risk capital to the party, alongside debt finance. And there is a wealth of experience on which to draw that confirms that community development can be a commercial proposition.

On small business development – there is similarly a tendency to think in too insular a way about public support services. Our development finance institutions have tried to manage their business too closely, which perversely raises their risk exposure and limits their impact. Far more could be achieved by seeking an intelligently structured partnership with commercial banks and business support services, with an element of subsidy and risk-sharing but with the incentives firmly focused on business viability.

On the future direction of tax policy … I am advised to hedge my bets: there will be further opportunities for tax relief; and we will continue to broaden the tax base. I hope it is clear from several of the reforms and incentives we have introduced in recent years that we recognise the critical complementarity between targeted spending programmes and supporting tax measures – for example, in support of our skills development strategy and to promote urban renewal. The tax incentives may not become permanent features of our revenue structure, but for the foreseeable future these are policy challenges that must be attacked on both fiscal fronts.

A sustainable, broad-based and transparent approach to black economic empowerment

What is the link between growth and BEE?

In the esoteric calculus of pure economic theory, it doesn't matter who owns assets, or even whether capital employs labour or visa versa, profit-maximisation will seek efficient technologies and resource allocation irrespective of who is making the decisions. But the theory relies rather on rather strong assumptions about information, which in turn imply a high degree of stability in property rights. It doesn't matter who owns the wealth, but it is important that there should be certainty in property rights. That creates rather a conundrum for the empowerment project.

Empowerment is of course not just about ownership, it also about effective exercise of ownership rights – and we have seen too many approaches to financing empowerment that, in practice, disable the exercise of rights. Empowerment is also about broadening participation in management, it is about skills and human development, it is about procurement practices and it is about social responsibility investment.

These are all respectable parts of a broad-based sustainable strategy for growth and development. But the instruments through which financing the diversification of ownership is structured are critical. The issue is clearly under the spotlight in the mining and financial sectors already, and it will arise elsewhere as the approach proposed in the recent Empowerment Bill and policy framework crystallises into Charters or agreements in other sectors. We are also currently exploring options for effectively using the R10 billion set aside in last year's Budget to support or underwrite empowerment transactions.

As in any public policy question, there are core principles on which we will rely. We will seek to share risk appropriately – government is not going to take on all the downside cost of empowerment. We need to get the incentives right – which means addressing the risks both of business failures and of failed financing arrangements. We clearly also need to achieve a high degree of leverage of public sector funds, to achieve real value for money in relation to Government's broad-based empowerment goals.

At the risk of deeply over-simplifying matters, we are looking for third-generation empowerment structures. First-generation transactions – highly leveraged block share sales – rapidly got into difficulties when the stock market turned down in the late 1990s. We have seen several major second-generation deals, heavily backed by public sector institutions such as the PIC, the IDC and the DBSA. But the risks to taxpayers are not mitigated by spreading public sector participation across several institutions. We need to find more intelligent and transparent ways of sharing risk and broadening the benefits of empowerment projects. This has to be at the centre of the third-generation programme.

Deepening of democracy, promoting peace and security and expanding investment and trade as principles of international cooperation and the New Partnership for Africa's Development

There is a golden triangle that holds NEPAD together – good governance, conflict resolution and economic integration. The vision may seem like a distant chimera, but that is its great strength. These *are* the core NEPAD principles, we know they are far-off goals, but it as absolutely right that these should be the principles on which we build our engagement with other African countries.

The founding conditions have been laid for South Africa's playing a leading and supportive role in Africa's development – although not by any means as the fastest growing economy, which honour belongs to our unassuming neighbour Botswana. These are foundations for 30 years and beyond.

That there are both considerable opportunities and imponderable risks here goes without saying.

South Africa's transformation over the past decade has in part been about addressing a domestic policy legacy that required radical overhaul, and in part about re-engagement with the international environment – diplomatic, financial and in trade and investment relations. Over the decade ahead, the international and regional dimensions will surely continue to loom large, and have the potential to reinforce and give greater impetus to our ongoing internal development and reconstruction campaign. And in this, there is a very broad overlap of interest between Government, the business sector and our higher education institutions. The quiet strengthening of exchanges and engagement between our academic and research institutions and those elsewhere in Africa and the rest of the world is one of the core strengths on which we can build in the years ahead.