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Economic growth and economic development

Thuthuka event, London

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SAICA & Thuthuka teams who have co-ordinated the event with the High Commission.

Ladies and Gentlemen,

Thank you for inviting me to address you today as the South African Institute of Chartered Accountants (SAICA) launches the Thuthuka initiative here, in the UK.

I want to begin by asking you to join with me in a moment of silent reflection on the recent violence in some of our townships and the need to rebuild shattered lives and communities.

This is an opportune moment to be gathering and launching this initiative just a week after the launch of the report of the Commission for Growth and Development. This report correctly acknowledges the importance of skills development for the realization of sustainable economic growth.

Before talking to the issue of skills development, allow me to take advantage of this opportunity to speak to you about the importance of economic growth in developing and emerging market economies and about the need to think more strategically about our long-run capacity and institution building challenges.   I have spent some time in the last two years as part of the Commission for Growth and Development, a body setup by the World Bank and chaired by

Michael Spence, a nobel laureate from Stanford University in California.

The Commission report, which I commend to you to read in its entirety, begins with the hopeful phrase, “unlike miracles, sustained, high growth can be explained and, we hope, repeated.”

The commission looked closely at the growth experiences of a range of countries, in particular a special group that has grown by an annual average pace of 7 per cent or more for more than 25 years or longer. For those 25 countries, a wide range of factors stand out as important to growth.

One they have in common is the centrality of high quality public institutions and their ability to define good policy and implement it. Combined with committed and pragmatic leadership, good quality public institutions are able to articulate the need for economic growth, supervise the policies needed to achieve it, and ensure the measurement and accountability frameworks are in place to see its fulfillment.

More broadly, the technical skills required to set out pro-growth policies are also those needed to create and build the public institutions that help markets to work and deliver outcomes free of market failure and abuse.   For most developing countries, institutions of any kind are hard work. They cannot be built overnight, despite the need for them. This means that progress in developing these institutions by necessity is incremental. It also suggests that we must be careful not to let the risks outweigh the benefits – it is important not to let the long-run benefits of the right course of action be upset by short-term miscalculations and hurry.

Patience and a focus on quality are important. And making sure that the goals are achieved without political contestation is critical. Governments are important in the long-run for everyone and in the short-run especially for those people disadvantaged by economic forces. Fiscal responsibility and price stability are unlikely to be fostered by governments and public administrations that cannot work effectively. In the medium-term, markets themselves fail to function if the public institutions on which they depend for the prevention of market failures cease to perform.

Healthy public institutions are also needed to address the social costs of rapid economic growth, in part because such growth is often a direct function of openness to trade in goods and services. So to get rapid growth, we need to be open. But openness can entail short-term pain, even as it is necessary for an economically dynamic and wealthier future.

For countries with limited skills base and ability to create knowledge, openness makes it possible to import ideas and know-how from the rest of the world, and to use it to catch-up. The global economy also makes it possible to achieve economies of scale or to find niches – to produce and sell into vast world markets that dwarf the small national and regional economies that limit growth of exports for many developing countries.

But tapping into global demand and ensuring sustained growth in domestic markets has indirect effects on societies that reach far beyond just employment contracts and credit agreements. Rapid urbanization has gone hand-in-hand with fast growth, as workers move from underemployment and low wages in rural areas to expanding production and services occupations. Most agricultural areas benefit from this shift in the workforce over the long-run too, as dependency in rural households falls and productivity and wages on farms rise.

These are just a few examples of the deep structural changes that occur in fast-growing economies. The microeconomics of growth – "where new limbs sprout and dead wood is cleared away" – is critically supported by policies that protect people that are adversely affected by the microeconomic dynamics. Appropriate policies have been identified as those that protect individuals, not jobs, and thus those that assist people to make the transition from one employment to another.

Perhaps most important in the growth process is to ensure access to opportunity – regulations and other arrangements that deny entry into economic activity for firms or individuals is sure to obstruct growth, employment and productivity. Government actions to address such constraints, the importance of education for girls for instance, are key ingredients in transforming the economic engagement with the rest of the world from zero-sum to positive-sum games. It is ethically and economically the right thing to do.

All of these ideas apply to our region of the world, perhaps more so than in some others. For in Africa, we have a rich history of institutions, but few that are really ready to address the challenge of an African economic renaissance. Part of what we need to do is to catch-up to our successes.

At a macroeconomic level, most of Africa is doing well. Policies are aligned better to economic needs, and the costs of high inflation and instability are recognised and factored into our macroeconomic policies. How we appropriately cast macroeconomic policies in the face of a permanent boom in commodities, or if commodity prices suddenly fall, remains a source of concern.

But we have got many of the fundamentals right. The average inflation rate for Sub-Saharan Africa peaked at 61 per cent reached in 1994. By 2005 inflation had fallen to 11 percent and to 8 percent in 2007. The average budget balance in the region was in surplus in 2006 and reached +1.4 percent of GDP in 2007. Africa's FDI rose to $31 billion during 2005 up from $18 billion in 2004 and 2003. South Africa, Egypt, Nigeria, Morocco, Sudan, Equatorial Guinea, the DRC, Algeria, Tunisia, and Chad were the main beneficiaries. Most FDI was in commodity producing sectors, including oil. Thirty-four other African countries received FDI inflows of below US$100 million (each).

In the areas of microeconomics and infrastructure, however, we have larger challenges. Much needs to be done in terms of macro- and microeconomic policies, infrastructure development, industrial diversification, community development, and income security to ensure that Africa becomes the next region to grow by over 7 percent a year for 25 years or more.

African economies need to much more actively import knowledge and technology and access foreign markets. Ensuring that policy fosters regional cross-border trade and economic links within potential supply chains across borders is an important contributor to flows of knowledge. Using commodity resources plays into the import and use of knowledge.

Perhaps one of the best uses of our commodity wealth would be to permanently increase the creation of knowledge and capacities in our people. One of the priorities for government has been and will remain education and skills development. A large proportion of our budget allocation goes to education, about 25%. This is larger than in most other middle income countries, and in some senses needs to be to address our skills and educational deficits. But the issue is not only about funding, as many of you know. Getting the educational outcomes that compete with advanced economies means that we need to get into our primary, secondary and tertiary educations systems and get them working far better than they do today. One of my fellow commissioners, Montek Aluwahlia of India told a story once of how they gave cameras to teachers and required them to submit photos of themselves in their classrooms each day. The photos showed the time and day. Simple techniques to improve educational outcomes can work.

Globally there is a strong competition for skills. The mobility of skills has reached unprecedented levels. Countries that have been able to grow, nurture and retain their skills resources have enjoyed higher growth levels. The South African government took cognizance of this critical factor and has launched the Accelerated and Shared Growth Initiative of SA. One of the pillars of ASGISA is skills development and education.

Accountancy of course is an area where we have also done much to improve outcomes and transform the profession. It is now common knowledge that South African Chartered Accountants are revered the world over. It is thus commendable that SAICA under the leadership of Ignatius Sehoole launched the Thuthuka Bursary Fund. We are convening because SAICA members in this part of the world also saw it appropriate that they should mobilize pledges for this important initiative.

I am pleased to inform you that National Treasury is one of the institutions that have joined forces with SAICA in this initiative that seeks to address the skills imbalances by advancing efforts to improve the flow of students into accounting. The cornerstone of the Thuthuka initiative is about increasing the entry numbers and improving the throughput pass percentages of black learners at universities. Part of our effort must also be to instill the highest levels of ethical conduct in the profession. This is important in its own right – as a value in itself – but also instrumentally, as a key input to the oversight, prudential and governance functions required in all economies.

To conclude, it is my belief that this initiative will go a long in ensuring that skills critical to sustainable economic growth are developed. I would like to thank SAICA for spearheading this initiative, and also thank those that have already pledged their support.

I thank you.