



**MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA**

Private Bag x115, Pretoria, 0001 • Tel: +27 12 323 8911 • Fax: +27 12 323 3262
PO Box 29, Cape Town, 8000 • Tel: +27 21 464 6100 • Fax: +27 21 461 2934

Cape Times / KPMG Business Personality of the Year 2009

Speech by Deputy Finance Minister Nhlanhla Nene

What is the foundation built from? A search for values

10 November 2009

“Everything that is counted does not necessarily count; and everything that counts can not necessarily be counted”

Albert Einstein

We can count the profit we make, but we cannot count the happiness that a customer gets from good service. We can count sales, but we cannot count the cost of the impact on the environment. We can count the fiscal deficit, but we cannot count the pain of a family where the breadwinner has just been retrenched. We can value the share price, but we cannot value honesty or integrity.

So much of our political, economic and business discourse is about ideology, policy, methodology, models, frameworks and systems. So little of our discourse is about what set of values underpins our models, frameworks and systems. In any economic system,

be it socialism or capitalism, when there is a loss of morals and ethics, the poor and the vulnerable suffer the most. Economic systems or models or frameworks matter, the numbers matter; but they matter far less than the foundation upon which they are built. That foundation is the set of values or ethics upon which we build our businesses, organisations and societies.

In the past 14 months, the world has witnessed economic turbulence not seen in most of our lives. The International Labour Organisation estimates that over 50 million people have lost their jobs. The number of South Africans who have lost their jobs in the past three quarters stands at just below a million. That's one million households in pain, where food would be scarce, stress in abundance, where families struggle to make ends meet. Economic turbulence is measured in the human condition, the feelings, emotions, aspirations and happiness of millions and millions of people. By this measure, the word depression more adequately describes the human cost of this global economic crisis.

We should also remember that even before the crisis, over four million South Africans were unemployed and about 40 per cent of households were living on less than 2 dollars a day. About half of our young people sit idly in townships, with neither work nor hope. The strain and stress that these statistics have on our social fabric is massive: crime, inequality, social dislocation, marginalisation – there is a greater sense of 'us' and 'them'.

Societies cannot survive and prosper in these circumstances. Inequality, of the scale that we have, is not sustainable in the long run. It is impossible for our country to make the kind of progress we need without addressing the key issue – that too few people work and in particular, that too many young people cannot get work. Ladies and gentlemen, I'll return to this issue later in my address.

Returning to what went wrong in the economic systems of the world – with socialism in the 1980s and with capitalism last year. In both cases, three things went wrong. Firstly,

elites captured power and used state resources to benefit the few. In Eastern Europe, the best schools, the best hospitals, even the best holiday resorts were reserved for senior party members. The higher up the ranks of the party, the better one was treated by the state. In modern day capitalism, the elites not only have a monopoly on the best schools and hospitals but they also use the state to further their own interests. While the bailouts of the financial system in the US were necessary, there are few who will doubt the role of the elite in lobbying for support from Washington. Here in South Africa, elites have captured state resources through corruption, through crony empowerment and by milking the state through charging exorbitant prices.

Rosa Luxemburg's note in her letter to Lenin is very apt in these times:

"Freedom only for the supporters of the government, only for the members of one party - however numerous they may be - is not freedom at all. Freedom is always and exclusively freedom for the one who thinks differently ... its effectiveness vanishes when 'freedom' becomes a special privilege".

The second common feature was that the 'distance' between government and the governed widened. The lifestyles of the elites, even in government, became unrecognisable to those of the electorate. The standard of living of senior public officials was so distant from that of the electorate that it blurred their judgement. The deterioration of the health system is a case in point. With almost all politicians and most senior officials in the state having access to private health care, too few policy-makers recognised that public health services were collapsing, even though 83 per cent of the population rely on the public health system. The elites were shielded because it did not impact on their lives.

The fracas around the expenses of politicians is a clear example of the widening distance between public office bearers and the electorate. Many senior leaders in government and in business live in different areas, use different means of transport, their children go to different schools, they shop in different stores, they purchase different items and they read different newspapers. Such distance must have negative

implications for governance, accountability and democracy. Joe Slovo, in his pamphlet on the collapse of socialism in Eastern Europe, *Has Socialism Failed* writes, “*The steady erosion of the ... representative character of elected institutions led to the alienation of a considerable portion of society from political life.*

The third common thread that gave rise to these crises was a complete breakdown in the ethical foundations of society, both in government and in business. The casino economy, as parts of the financial services sector has become known, lost all perspective of right and wrong. Market players believed, with almost religious zeal, that markets were always right and that resources were always allocated in an efficient manner. The article in this weeks’ Sunday Time where Lloyd Blankfein, CEO of Goldman Sachs says that he believes that he is doing the work of god is reflective of this belief that markets function in a way that is good for all or for most people. I thought that after everything that has happened in the past 14 months, that there would be few people who believe the markets are always right. The truth is that markets are often wrong. Prices often over-correct, markets often fail and prices are not always a reflection of all the information that is out there at any point in time. Even the so-called ‘efficient market hypothesis’, the basis of most operations in the investment sector, is being questioned today.

A sense of ethics is missing from business today. Warren Buffet is quoted as saying, “*Earnings can be pliable as putty when a charlatan heads the company reporting them*”.

Without honesty and integrity, free markets will run amok. Let’s take the example of price collusion, affecting so many of our industries in South Africa. Let me ask the question, who is a greater threat to free markets in South Africa, the so called ‘left’ who call for nationalisation or the business leaders who fix prices in anti-competitive ways and don’t play by the rules?

A business community that condones their own when they fix the price of bread or rig a tender contract is a community that has lost its moral compass and therefore cannot be relied upon to help build a successful country.

This loss of moral compass occurred in socialist countries too. Only the immoral could not see that certain reforms, such as collectivisation in farming, was causing food production to fall and hunger to increase. Because prices were not a signal of a crisis in food production, food had to be rationed and of course, the elites got more. A system that justified anti-democratic practices such as bannings, arrests and intimidation of the opposition by the state is a system that has lost its moral authority.

There are government examples of how hubris led to failure too, from the great Roman empires to our present day government here today. Arrogance, disregard for the electorate and disdain for the views of others is a recipe for failure. The complete lack of humility in our discourse is a serious cause for concern.

Our country faces massive challenges. We seek to build a united, prosperous, non-racial and non-sexist society where the opportunity of every citizen is valued and nurtured. We cannot achieve this objective unless we tackle the employment challenge. Under the leadership of President Zuma, we have opened up a dialogue on a new growth path for South Africa. An alternative growth path must be a more labour-absorbing one and a more inclusive one.

The present crisis and the new spirit of openness in government is an opportunity for you to become involved in the debate. While government has a key role to play in increasing employment, only through a partnership with the business community can we hope to succeed in creating millions more jobs. We seek your input and advice, we seek your active involvement in the programmes and campaigns to reshape our economy. As government, we have an obligation to business to support them and to provide the environment for entrepreneurs to succeed. At the same time, we expect honesty and integrity from our business community. As I've said repeatedly in the past few weeks,

we seek entrepreneurs, not tenderpreneurs. We seek people and businesses who are going to create jobs and add value to public services without milking the state, even if this is in the name of BEE.

In conclusion ladies and gentlemen, allow me to extend my congratulations to all those who have been nominated for the awards tonight and to the winners. You have a huge responsibility, to demonstrate that morals and values still form the foundation of our society.

Even as we search for a new growth paradigm and as the world searches for a new economic paradigm, let us recognise that no system in the world is sustainable if it is not underpinned by a sense of morals, ethics and values. No system can succeed if it is not people-centred. We must put people first, and we are unashamed that we will put the poor and vulnerable first in our policies.

The most urgent task in South Africa is to create jobs. This is where business - big and small, government, labour and civil society need to reach out and develop a partnership that taps into the immense creativity and energy of this country. We have to do this, so that millions of people will have hope that they will get a decent job one day, and not just be dependent on a welfare system. There in lie the future dignity, integrity and dynamism of South Africa.

I leave you the words of John D. MacDonald, "*Integrity is not a conditional word. It doesn't blow in the wind or change with the weather. It is your inner image of yourself, and if you look in there and see a man who won't cheat, then you know he never will.*"

I thank you.