



**MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA**

XVIth World Economic History Congress

University of Stellenbosch

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Opening address
By Pravin Gordhan
Minister of Finance

Thank you for the opportunity to deliver this opening address and the privilege to welcome you all to the southern tip of the African continent.

I want to congratulate the organisers and the University of Stellenbosch for hosting this World Economic History Congress in the vicinity of Robben Island.

As you ponder on your valuable research findings and engage in vigorous dialogue about your rich insights into our collective past, I hope you will find the time to visit Robben Island and share in our remarkable history.

ANC stalwart and former Robben Islander Ahmed Kathrada remarked 10 years ago: “While we will not forget the brutality of apartheid, we will not want Robben Island to be a monument to our hardship and suffering. We would want Robben Island to be a monument...reflecting the triumph of the human spirit against the forces of evil. A triumph of non-racialism over bigotry and intolerance. A triumph of a new South Africa over the old.”

Many generations of activists and many millions of South Africans acted in concert over many decades, indeed centuries, to create the possibility of a democratic transition in this country some two decades ago. Their efforts are today focussed on building South Africa, creating a democratic state, nurturing democratic values, promoting non-racialism and non-sexism and overcoming the legacies of colonialism and apartheid, including inequality, unemployment, economic marginalisation of the majority, and inequitable land ownership. This economy still bears deep scars that were created by apartheid institutions, ideology, economics and politics.

But we remain inspired by the words of Nelson Mandela: “There is no easy walk to freedom anywhere, and many of us have to pass through the valley of the shadow of death again and again before we reach the mountaintop of our desires.”

My generation of political activists came to appreciate the role of historical and social forces in shaping change and development through the readings of Karl Marx and other historians such as E.H. Carr and Eric Hobsbawm. It was through this understanding that we became active in the politics of our liberation movement and the struggle for freedom in our country.

It was also through these perspectives that we theorised the role of the state in the political economy of South Africa. Whether we really mastered the imponderables of the surplus labour theory of value, I am not sure, but we certainly took Marx seriously when he proposed that “philosophers have only interpreted the world; the point, however, is to change it.”

We have approached the reconstruction of South Africa’s political economy not only with a deep sense of the injustices in the structure of our economy, but also of the deep inter-connections between our history and the evolution of political power, conquest, trade, technology and finance in a global context.

Clearly, an understanding of history has a role to play in appreciating and understanding societies and their development. On your fraternity rests our expectations that you will bring to bear different perspectives and deeper insights into the troubled times that we live in. This XVIth Congress is, therefore, timely. The issues you are discussing this week could have a great bearing on the problems that engulf the world economy, politics and society.

We are learning that we simply cannot rely on elegant macroeconomic models alone to provide solutions to our present complex problems. What is required is an engagement with a broader and more diverse community of social scientists, of which you form an important part. Equally important, we need a more dynamic and active discourse between scientists and practitioners, between analysts, researchers and decision makers.

The global financial crisis of 2008 has been a catalytic event, and, of course, for many it has been a traumatic event. It has altered the way we understand how the world works. It has accentuated the political, social and economic “fault lines” in our global society. The crisis has raised questions about the sustainability of the present path of growth and development. Amongst those will be:

- The development of widespread inequality, and as a result the debate about 1% vs 99%
- The growing unemployment, particularly amongst youth in many countries
- The imbalance between the locus of production, growth and consumption
- The role of the financial sector in relation to the real economy, and
- The growing gap between the political and economic elites, on the one hand, and ordinary citizens on the other.

The present crisis has also highlighted interesting new trends and developments. The developed countries are today faced with a huge crisis and will be in the throes of debt and financial crisis for a long time. Some predict as long as 20 years. The bigger emerging economies have become the new engines of economic growth and reduction in poverty.

Developing countries will increasingly have to rely on creating their own economic trajectories. Major developing countries such as Brazil, China and India have demonstrated considerable capacity to implement countercyclical policies and deepen their resilience in the face of uncertain global prospects.

Many African countries are in better shape today and have been able to sustain themselves by undertaking expansionary policies. Economic management in these economies has improved considerably. This contrasts sharply with the 80s and early 90s. The Asian crisis in 1998 provided important lessons which have contributed to stronger institutions in developing countries today. And all of this demonstrates that history does matter. Lessons have been learnt in many, but, unfortunately, not in all cases.

In this sense, the crisis has had a better outcome for developing countries since they are better able to deal with external shocks and vulnerabilities in their economies. However, they are still connected to, and dependent on, global growth and global demand.

The question for all of you as you spend the week here is what insights we can draw from economic history to manage better the tensions in the global and domestic economy and society. And amongst the questions that you could give us some answers to by the end of the week are:

- Whether this is an epochal transition to a new configuration of political and economic power?
- What are the implications of the emerging context about multipolarity?
- Are we on a path of increasing and destabilising inequality in our societies?
- Is the gap between political elites and citizens undermining the democratic foundations of society?
- Are we witnessing a permanent rebalancing in the relative roles of the state and the market?
- Is the capture of the state and politics by organised interests inevitable?

There are many who have looked at the current crisis such as Carmen Reinhart and Kenneth Rogoff, who remind us that “this time is not different”. The question for historians is whether we will find the historical continuity, on the one hand, in some of the crises that we are experiencing and the uniqueness of the present.

Another acknowledgment arising from this crisis asks us to challenge the silos we operate in. We are now compelled to draw from different disciplines to gain a better understanding of the world we live in. Psychology, sociology, politics, history - all have vital perspectives on the crisis and its consequences.

Economists such as Robert Shiller have incorporated human psychology into their work on financial markets. Hence the school of behavioural finance is generating new insights into how markets work, how people make mistakes, how speculative bubbles emerge, and the circumstances in which these deviations can have destructive impact on the larger economy and ordinary citizens.

As we explore the roots of development, a question we, as ordinary folk, will ask is what follows the present period. What forces and influences will shape the next period of human history? We have lived through the Washington Consensus, which led to development strategies that embraced market liberalisation, minimalist government and a strong commitment to export growth. Emphasis was placed on removing price distortions, on privatisation, balance of payment stability, and international competitiveness.

But this coincided with an astonishing burst of economic progress in China and India, where markets were indeed opened up, but in institutional and policy environments that diverged in several ways from the Washington doctrine. And these countries experienced far milder downturns when the global economy found itself in difficulties.

While there are debates here that are thankfully not my responsibility to resolve, it seems clear to me that there are many possible routes to economic and social progress. There is a growing understanding that “one size does not fit all”.

East Asia has served as a remarkable testing ground for development theories and policies over the past fifty years. The lessons are far from straightforward, and they allow for a wide range of possible roles for the state alongside markets.

We have also learnt a great deal over the past fifty years about how human development and a focus on human capabilities need to be brought to the centre stage of the development paradigm and policy frameworks.

One commentary in, *Why Nations Fail*, a book by James Robinson and Daron Acemoglu, says: “Different social groups prefer different political institutions because of the way they allocate political power and resources. Thus democracy is preferred by the majority of citizens, but opposed by elites. Dictatorship nevertheless is not stable when citizens can threaten social disorder and revolution. In response, when the costs of repression are sufficiently high and promises of concessions are not credible, elites may be forced to create democracy. By democratising, elites transfer political power to the citizens, ensuring social stability. Democracy consolidates when elites do not have strong incentive to overthrow it. These processes depend on (1) the strength of civil society, (2) the structure of political institutions, (3) the nature of political and economic crises, (4) the level of economic inequality, (5) the structure of the economy, and (6) the form and extent of globalisation.”

As you go into your conference, you sit on the southern tip of a continent that is very optimistic about its future. Sub-Saharan Africa is growing rapidly and Africa is on the cusp of a major multidimensional transformation.

In the last 5 years, the Chinese economy will have expanded by about 60% and India by 45%. Emerging economies will grow by about 30% and advanced economies may not grow at all in per capita terms. This speed of transformation is unprecedented and significantly alters the centre of gravity of the global economy towards emerging economies.

This is the age of emerging economies and we have to ask what it is that South Africa, and countries similarly caught in a pattern of unequal and inadequate growth, need to do in order to achieve inclusive, more rapid, economic participation and development.

I am reminded of Paul Samuelson’s response when asked by an interviewer: “What would you say to someone starting graduate study in economics?” “Well,” he said, “this is probably a change from what I would have said when I was younger. Have a very healthy respect for the study of economic history, because that’s the raw material out of which any of your conjectures or testing will come.” Alternatively as Amartya Sen says: “I think we need a bigger, more integrated view than economists tended to look for in the past.”

May you endeavour to find the Higgs Boson of the social sciences, which will lend “mass” to social, economic and political hypothesis, and help you consolidate your “standard theory” of humanity so we can explain the phenomenon of the past and present and help shape a better future. What the world is looking for today is an inspiring vision of a better, different future – a future which assures the bottom 2-3 billion people of a decent life, employment and the freedom and support to develop equitably.

And let us be inspired by Nelson Mandela when he says: “Let there be justice for all. Let there be work, bread, water, and salt for all. Let each know that for each body, the mind and the soul have been freed to fulfil themselves.”

I wish you well in your deliberations.