MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

Key Note Address

Deputy Minister of Finance, Hon Mcebisi Jonas (MP)

6th Congress of the Federation of Unions of South Africa

17th November 2016

Theme: Decent Work and better life for all

Focus: Inclusive Growth, employment creation, role of organised labour and importance of ethical leadership

General Secretary of Fedusa, Cde Dennis George

President of Fedusa and all the executive members

Presidents, executives and officials of all the Unions affiliated to Fedusa

President of Cosatu, Cde Sdumo Dlamini and his delegation

Minister of Labour and her team

President of Business Unity South Africa, Mr Jabu Mabuza and your team

General membership present here this morning

International guests from the ILO and other fraternal organisations

Ladies and Gentlemen, Good Morning

Firstly I would like to take this opportunity to thank Fedusa for inviting us to say a few words in this conference, and we wish you well in your deliberations over the next 2 days. As government we are committed to working more with you and other labour formations as we have done since January 2016.

My address will focus on many critical issues facing South Africa in the context of the shifting global balance of forces. I will focus on the global and domestic economy and what we need to do to achieve inclusive growth that creates sustainable job opportunities. I will also detail work done with both organised business and labour on preserving our sovereign rating and discuss issues relating to the importance of ethical leadership across society (not only in government, but in business, in trade unions and the rest of society).

Before I begin it would be amiss of me not to reflect on the state of global politics. We have noticed the rise of nationalism, populism, and anti-minority and immigrant xenophobia. Illustrations of these growing sentiments include BREXIT, and the surprise election of Donald Trump in the USA with a devastating margin. South Africa won't be insulated from these trends. It is up to all of us to protect the political principles we fought for and which are enshrined in our Constitution, and defeat the emergence of neo-nationalist populism here at home.

As many of you would know that the IMF revised global growth for the 6th consecutive time in the July edition of the World Economic Outlook to 3.1 per cent and 3.4 per cent in 2016 and 2017 respectively, this reflects that Unemployment remains a major challenge across all countries, The world remains reliant on low US interest rates to calm markets. The question we are all asking is whether the US's monetary policy will change. Higher interest rates in the US will see disinvestment from developing and emerging markets, which will even further limit the room for fiscal manoeuver.

Already emerging markets, and especially commodity exporters, are vulnerable with the slowdown of China, and recession in countries such as Brazil and Russia. Even the outlook for Sub-Saharan Africa, which has been resilient over the past decade, has fallen sharply on the back of lower commodities demand and prices, and rising inflation and as result of currency weakness.

Domestically South Africa looks set to grow at less than 1 per cent this year. As a commodity exporter, we continue to be affected by the commodities down-cycle, which is further compounded by subdued business confidence and weak consumption spending. There appeared to be some green shoots of revival as the Q2-2016 mining and manufacturing data showed recently, as well as some improvements in the services sector. We can only remain hopeful as we await third quarter GDP data, as well as the decisions of the ratings agency.

As a country, we are overly susceptibility to financial crises caused by factors beyond our control. We must address why we are vulnerable, and how we can build a more resilient economy. I think we are vulnerable because we have become too dependent on foreign investment to finance our own growth and development ambitions. This is linked to our own low savings base. As a country we have the highest levels of household debt as a percentage of GDP globally. As a government we have also become indebted to foreign lenders, which again makes us vulnerable to currency fluctuations and monetary policies elsewhere.

I would also argue that our low levels of fixed capital investment contributes to our vulnerability. Much of the investment which flows into the country, and even within the country, is in the financial sector, rather than the productive sector. We have grown fixed capital investment from 14% of GDP in 1995 to some 20% currently, but need to grow it to around 30% to build the kind of resilient economy we need. China's fixed capital investment is 49% of GDP, and most emerging Asian countries stand at above 30%. Without investment, we cannot grow our economy. We need to better understand why we have relatively low levels of fixed investment. Probably this is linked to issues of business confidence, but also to the fact that capital does not see sufficient returns through investing in the productive sectors of the economy. Why are we not more competitive in manufacturing, agriculture, tourism and other tradable sectors? What are the constraints to investment? Why are policies such as IPAP not having more impact? These are the issues I would like us to get our collective heads around.

Economies that have enjoyed higher and more equitable growth, especially the East Asian countries, have used social compacts as mechanisms to put national interests above narrow sectoral interests, and to derive the necessary trade-offs and concessions. I would argue that we have not yet reached a consensus, a social bargain, for faster growth and reduced inequality. The social bargain we struck in 1994 was more about keeping the existing structure of the economy intact, redistributing benefits of growth through social welfare, and building a black middle class through state employment. This bargain brought significant social returns in reducing extreme poverty and vulnerability, and extending access to basic services. We have reduced the number of people living in poverty from 41.1 per cent to 21.5 per cent between 1994 and 2015. School enrolment and access to services such as sanitation and electricity have increased dramatically.

But we must now acknowledge it has run its course. Unemployment remains too high at 26.6 per cent in 2Q-2016; the unemployment rates continue to be highest amongst youth, and those without a matric. The unemployment rate for 15-24 year olds stands at 53.7%. 31% of those in the labour force with incomplete secondary education were unemployed, compared to 27% of matriculants and 12% of those with tertiary education.

The High long-term unemployment symptomatic of structural labour market challenges Our data indicates that unskilled workers are facing downward pressure on wages due to globalisation, pressure from more productive workers.

We need a new consensus to transform the economy. People in all corners of society are restless. Our continued low growth threatens the fiscal sustainability of the welfare compromise, and continued and even rising social inequality threatens political stability. Continuation of our existing growth model, with its low growth and inherent structured inequalities, will increase spending pressures on welfare, security and debt servicing. This is a scenario we cannot entertain.

We need a new social bargain for economic transformation. At the centre of this bargain we need faster economic growth. This growth must be triggered by a renewed vigour for industrialization – what I have called elsewhere full-throttle industrialization. We must get out of first gear.

Without growth we will not have the fiscal resources even to sustain our current social programmes, let alone invest heavily in economic development. But this growth must be inequality reducing. This is never easy to achieve because the natural tendency of capitalism is towards increased inequality. This is especially the case as capitalism matures and financialization becomes the dominant trend. The reasons are simple, as Pikkety explains. Higher returns accrue to those who already possess capital and assets. In the SA case, higher returns also accrue to those who already possess skills (read white South Africans). Our poor performance in the education and skills space has not helped. We need to cultivate a national obsession with fixing our education system. Without an effective education system we will not be able to reduce inequality.

It is evident that we need a strong developmental state to off-set these natural inequality-expanding tendencies of capitalist development. But we must also acknowledge that our efforts to build a developmental state has been fraught with difficulties. Many of these are linked to patronage and corruption, which has undermined our efforts to build an ethical and capable state. We have to tackle this head on if we are to build the kind of state that can manage capitalist development in the broader interests of society as a whole.

I have said elsewhere that what is needed at the current moment to transition us to this new social bargain for economic transformation is exceptional leadership, not only within government, but in business, labour and civil society. Without this leadership we will not be able to re-mobilize society as whole behind this national project, and to extract the kind of concessions and compromises necessary.

New institutional mechanisms for collective socio-economic governance and accountability will have to be developed as a matter of urgency. NEDLAC has been useful, but perhaps needs to be rethought and retooled to make it more effective. The fact that social partners come with maximum positions mitigates against NEDLAC facilitating the kinds of creative new partnerships that we need, for example with universities around innovation and technology transfer, with education stakeholders around improved quality outcomes for poor learners, around addressing barriers to entry into the economy for new black producers. The compacts can't be only at national level, but must be place-based in provinces and cities, and sector based. They must be located where the tyre hits the tarmac.

Our actions today can avoid short-term employment becoming long term unemployment and can ensure investments are made today that help ensure our businesses are in a position to grow when global conditions improve.

This week both rating agencies Standard and Poor's and Fitch are in the country for their December assessment and I am sure my of our trade union leaders will meet them and reflect a united story on the initiatives we are jointly implementing to ignite growth. It is important that we do it not for ratings themselves – but for the people we need to uplift and the jobs we need to create. Emerging markets, including South Africa, need to find a way to sustainably attract investment, rather than being a short-term stop over for cash. Currently India is bright spot with strong commitment to unblocking domestic constraints through structural reforms

In conclusion, Cde President of Fedusa and Cosatu, urgent action is required globally and at home to tackle the following

- Discontent with inequality and slow growth is fuelling an anti-globalisation movement.
- Rising protectionism and the rise of the far right is grave concern – it is not just about borders getting higher for migrants, but also goods, investment and ideas.
- No coincidence that the youth face highest unemployment – and we face violent protest from not only students, but many who feel they are not given a voice and are excluded
- Need to also be sure that we look after the most vulnerable in society

At the beginning of this year, the President mandated the Minister of Finance and Business Unity South Africa to coordinate efforts to reignite growth. This initiative is inclusive of organised labour and civil society. We have made progress, and sufficient consensus is emerging on what needs to be done over the short term and the long term. Collectively we have embarked on a path to grow and industrialize the economy and address inequality and inclusivity.

Fedusa, alongside other unions, is playing an active and positive role in making real change in industrial relations. This year we have witnessed progressive and peaceful negotiations, however more more is still required. Perhaps we need to re-examine and refashion relations between business and labour.

We must continue to discuss the challenging labour reforms including Introduction of balloting to avert unprotected strikes and the Introduction of minimum wages to address inequality as we have been doing.

Government is also working hard to improve on how it works, articulate policy and avoid wastage – because without this we cannot create the stability required for much needed investment. Substantial progress has been achieved in resolving and passing key legislation (MPRDA, Mining Charter, visa regulations) and last week cabinet considered an array of proposal on the SOC's reforms.

Further Government has created a process for Improving the ease of doing business and encouraging investment and job creation through the establishment of the Invest SA Agency. We are also reviewing port tariffs, and tackling other constraints to growth.

I would like to end by commending the active role played by Fedusa, and organized labour in general, in the initiatives with the Ratings Agencies and investors. This is illustrative of the exceptional leadership we have in South Africa. I have no doubt that we will safely navigate the stormy seas ahead if we continue in the constructive manner we are engaging.

I thank you.