



national treasury

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REPUBLIC OF SOUTH AFRICA

**Speech by Deputy Minister of Finance
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Gordon Institute of Business Science's (GIBS) Think Tank Event

I think we must acknowledge and appreciate that we have achieved remarkable success as a country. Just over twenty years ago we were a country perched on the brink of civil war. It was remarkable leadership that enabled us to navigate the extreme social tensions that existed and embark on the path of reconciliation and justice. This theme of remarkable leadership is one I will return to later, because like in 1992/1993, I think we are again at something of a cross-roads and we again need remarkable leadership to galvanize us in one direction. And there were major achievements made in this period, such as developing the Constitution and institutional frameworks that have kept us in check, and made sure the rule of law and the system of democratic accountability holds firm. So we owe a lot to our leaders who put this institutional architecture in place. We also put a massive fiscal redistribution programme in place, and arguably for the size of our economy and GDP, have one of the most comprehensive welfare systems globally. And here we have seen amazing results in terms of eradicating extreme poverty and giving citizens access to basic services. Where we have also been successful over the past twenty years is around macro-economic stability. Until the onset of the Great Recession in 2008/09, we were generating more revenue than we were spending.

But our growth model itself, if you can call it that, has its limitations. We grew very well as an economy between 2003 and 2008 on the back of high commodities demand and prices, and strong financial inflows. But as soon as commodities demand reduces (China slows down) and emerging markets are no longer the flavour of the day for financial investors, then our economy stumbles. It seems as if we haven't ignited our own engines of growth. We all know that we could be doing much better – it's about understanding where we could be more competitive, identifying and addressing growth constraints, and aggressively supporting team SA on the economic front.

This is something we haven't done well enough. Put simply, we haven't sufficiently prioritized economic growth. Possibly this is linked to old suspicions about business. This trust deficit is something we have to address. Possibly it's just that we have had other priorities (health, education etc). But increasingly we are realizing that if we do not grow the economy, restructure the economy to address binding constraints, we will continue to be stuck in a low growth trap. This is not something new – we have been growing at around 2% aggregate since the 1970s. We are not creating new wealth and new assets. So when we talk about a new consensus, growth must be at the centre of it.

But we are not a normal society so we cannot just talk about growth. Yes, growth will give us more revenue so we can expand our fiscal redistribution programme. But any growth we achieve will be unsustainable unless we address the 90-10 phenomenon – in which 10% of the population own 90% of the wealth (actually it's much more). So our growth must be inequality reducing. This is at the heart of the notion of inclusive growth. I don't think it's helpful to blame each other rather than blame each other, we should accept that things need to change – change radically as we are saying in the ruling party. Yes, government should have done far better in terms of education and training results, and our costs of logistics and energy from our SOCs are high, business could have done more to integrate black start-ups into key value chains and markets and banks could have done more to allocate capital to productive investment etc. The sooner we agree on what must change, and how this change will be facilitated, the better. This is why we are calling for a new consensus – so we can bring certainty to policy, so we can bring the necessary stability required for business to make long term investment decisions. We are extremely concerned that we are not seeing the levels of investment that we require to ignite growth – not in liquid financial markets but in fixed capital. So we need to bring certainty to bear, so we all know where we stand.

This also becomes important in the context of rising social discontent and impatience (#feesmustfall) and the rise of populism globally and here at home. This is a real danger we need to confront. Unfortunately there are no quick-fix solutions to the complex problems we face as a country, and we need to collectively fight against short term posturing that may do us untold damage in the long term.

So the new consensus is not something we must just talk about for the next few years. There is an extreme sense of urgency. But we need a certain threshold of leadership to be able to do this – in the ruling party, in government, in business, in the trade unions etc. That's why I say we need remarkable leadership – like in 1992/93 - to take us there. This is not wishful thinking – I do believe we have the capability – it's just a case of putting our best teams together and making sure we manage the spoilers.

One of the tasks this leadership will have to address is the business government relationship. One of the issues we have to deal with within the ruling party is a very narrow interpretation of what constitutes redistribution. We have to move beyond very narrow views of redistribution as changing ownership of existing assets. This is problematic. The existing structure of the economy is not giving us the growth or employment returns we need. Simply changing the colour of the asset owners without restructuring will simply mean replacing a white elite with a black elite. Fundamental inequality will not change. What we should rather be focusing on is creating new wealth and new assets, and making sure that the previously dispossessed get an increasing share in this new wealth. Key to this will be training, partnerships, access to capital and markets, access to technology etc. What we would like to see in collaboration with universities and industry is the blossoming of techno-parks and incubators. The established private sector must play a key role in enabling this to

happen. This must be unpacked industry by industry, in partnership with government and other stakeholders.

One of the factors we must confront that will obstruct us getting where we need to go is corruption. This has constrained us, creating the kind of professional, developmental state that we aspire to create. Currently it is driving the asset grabbing mind-set that we need to allay. Business has a core role in keeping its members ethical through peer-reviewing mechanisms, monitoring and reporting. Fighting corruption cannot be government's job alone.

The fact that corruption is being engaged with so robustly gives us hope for the future. We have robust institutions, a vibrant media, and a strong and dynamic civil society. But the big lesson we have learned from history is that where rent-seeking is a primary source of wealth creation, institutions will always be under threat. Where innovation and growing productivity underlie wealth creation, societies are more likely to have stable institutions. So, economic restructuring and the development of real innovation and productive capability is our surest way of defeating corruption in the long term. In the meantime, we must stay strong and unite against any assaults on our democratic institutions. Contrary to how it is often reported, we also have a very robust ruling party, where these issues are being hotly discussed in the build up to the national conference in December.

I thank you.