



**MINISTRY: FINANCE**  
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**Finweek Economist of the Year Awards**

**Minister of Finance Pravin Gordhan**

**Republic of South Africa**

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Ladies and Gentlemen

We are a few days away from the biggest celebration of our national achievement and pride, of a new Africanness, the greatest solidarity at a global level, the focus on South Africa, and indeed, soccer. All of us must stand tall, blow the vuvuzela and shout at once – “Yes, we can”, because we have. After six years of gruelling preparations to host the 2010 FIFA World Cup, the soccer spectacular comes to a close on Sunday, and I am sure you will agree that South Africa has been an impeccable host to the 32 teams that have played in the tournament and the multitude of fans who have come from all over the world to support their national sides. I wish the Spanish and the Dutch teams the best of luck on Sunday.

**Current economic landscape**

Amidst the excitement generated by the World Cup it is easy to forget, if only for a moment, that we are living in a very uncertain world. The effects of the financial crisis that hit the global economy so hard in the final months of 2008 are still with us. Most countries, especially in Asia and Latin America, have witnessed a strong rebound in economic activity this year. However, crisis conditions have persisted for a group of countries in Europe - most notably Greece, Spain, Portugal and Ireland

– forcing them to announce tough fiscal austerity measures to contain rising government debt and falling confidence.

The International Monetary Fund has raised its forecast for world growth from 4.2% to 4.6%. Olivier Blanchard, the fund's chief economist, says that "the baseline forecast that we have, has nothing like a double-dip". This is largely due to growth coming from Asia. At the same time there are downside risks, particularly with regard to parts of Europe where sovereign risks have increased and the health of the region's banking sector remains in question.

Here at home we have seen a gradual improvement in economic conditions with quarterly GDP growth rebounding to 4.6 per cent in the first quarter of 2010. The pace of growth probably moderated somewhat in the second quarter, but as things stand we are on track to achieve the growth rate of 2.3 per cent for 2010 that was projected in the February Budget. Despite the positive mood generated by the World Cup and increased spending by overseas visitors, many South Africans are still facing hardship, and are dealing with challenging economic and business conditions.

### **Crisis in Economics**

As you select your "Economist of the Year", the crisis requires us to reflect on this profession, its tools, its impact and efficacy. If you asked economists why economies experience booms and busts, you will, needless to say, get a variety of different answers. Some will say that booms and busts occur because of government intervention in the economy. Others will argue because government did not intervene enough. Some will even argue that there is no such thing as bubbles because markets are perfectly efficient. If the price of an asset rises to stratospheric levels in a few years and then collapses, they would argue, it's simply the market responding to new information.

Similarly, the same responses can be seen if we ask economists what to do when a crisis occurs. Some will suggest that government must intervene through a monetary and fiscal stimulus to counteract the collapse in demand. Others will simply respond that the government must never intervene and therefore not interfere with the market mechanism. Furthermore, the very notion of a "crisis" is false, some economists would say, because the market, after all, has the capacity to be a far superior mechanism for allocating resources efficiently and regaining equilibrium.

This may seem confusing to those who are not economists since economics attempts to be a science, with equations, laws, mathematical models as well as econometrics – it has a set of tools which give it the semblance of impartiality. But underlying this façade of objectivity, there exists tremendous divergence of views and even ideological bias, which is reflected in international debates, even within the G20.

It may appear easy to dismiss these differences as dry academic debates. That would be a grave error. It is precisely these debates that shape our response to the crisis, from fiscal policy to the role that central banks play. Ideas matter. Philosophical orientation matters. And so does ideology. They all play a key role in influencing how economies globally and locally have responded to the crisis. In

this context it is important to understand the role that economic thought plays or else we will not understand how the world went into the recent crisis and how we can come out of it.

The current crisis, as with the Great Depression of the 1930s, has exposed the fallacy of capitalism as a perfect or near-perfect system. As Nobel Laureate Paul Krugman pointed out in an article for the New York Times magazine in September last year, the economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth.

“Unfortunately, this romanticized and sanitised vision of the economy led most economists to ignore all things that can go wrong. They turned a blind eye to the limitations of human rationality that often lead to bubbles and busts; to the problems of institutions that run amok; to the imperfections of markets – especially financial markets – that can cause the economy’s operating system to undergo sudden, unpredictable crashes; and to the dangers created when regulators don’t believe in regulation,” Krugman wrote.

In assessing our policy responses and evaluating how the economic landscape will take shape over the next decade, it is necessary to take a step back and look at some of the lessons we have learnt from the crisis. In a nutshell, we have learnt the following: that large and growing imbalances, either domestic or external, are not sustainable; that inflation control is necessary, but not sufficient to ensure balanced and sustainable growth; that asset prices matter for monetary policy; that effective regulation is essential to temper market excesses; that micro economic reforms are necessary to support competitiveness and improve the capacity of the economy to create jobs; and finally, that fiscal profligacy does not pay.

The crisis has also caused economists around the world to reconsider the role of the state in the economy. Capitalism is prone to periods of excess and exuberance, which can have devastating and costly impacts on employment and income when economic conditions change. Public policy has a greater role to play in regulating markets to prevent such excesses and exuberance. Mechanisms must also be in place to ensure that the poor and vulnerable are protected from the effects of these boom-bust cycles, including rising inequality.

### **Implications for South Africa: the challenge of raising employment**

The economy is a nation’s “grand project”. Social justice demands that all able-bodied citizens who are willing to work be afforded an opportunity to participate in this project. As Edmund Phelps, another Nobel Laureate, has pointed out: “The central importance of jobs and self-support derives from several human needs. People need to engage their minds and, for most people, jobs are the main means by which they encounter new problems to solve, discover their talents and expand their

capabilities. People gain satisfaction from achieving something and experience personal growth from working with others..... Last but not least, the pecuniary reward from working is of both material and symbolic value. People want the dignity brought by self-support and the autonomy brought by having a substantial income of their own to meet their special needs.”

It is therefore an indictment on all of us – government, business, and organised labour – that 4.3 million fellow citizens (enough to fill 47 Soccer City stadia) are being left out of this nation’s endeavour – the formal economy. We should brook no obstacle to the inclusion of all able and willing South Africans in the economy.

Over the next decade, South Africa’s major economic challenge must be to achieve faster and more sustainable growth that translates into increased job creation, particularly for those hardest hit by unemployment - the low-skilled and the youth. This is not only crucial to address social imbalances and high inequality, but it is also fundamental to encouraging investment. Without adequately skilled labour or the removal of bottlenecks which reduce the supply and absorption of labour, investment and the ability of companies to grow and generate profit and employment will be limited.

No jobs will be created if the economy does not grow, but to maximise the economy’s growth potential we need to maximise consensus. Other countries have successfully formed social pacts or accords in pursuit of common goals like higher growth and job creation. Why can’t we do so with conviction and resolve? Are we not hungry for economic growth?

The economic reforms that are needed to generate faster and inclusive economic growth are impossible – as is a World Cup victory - in the absence of team work. Government, business, organised labour, and the larger society – all of us must work together as a team.

There’s no single policy intervention; there’s no silver bullet. What is needed is a comprehensive set of short- and long-term reforms that maximise job creation, improve the skills of our workers and get young people into their first jobs. These policies should include:

- Measures to encourage industries and services that have significant jobs potential;
- Encouragement of small business development and entrepreneurship;
- Stepped up implementation of the expanded public works programme;
- Improved education performance and skills development to raise productivity by ensuring more young people complete Grade 12, acquire higher qualifications and gain the necessary academic and vocational skills while at school or in further education.

- Improving our labour market framework to both protect existing jobs and create new jobs, particularly for youth.
- Considering additional measures to help young people get a job, for example by encouraging first-time job placement and bolstering employment services provided by government and the private sector for job search and job placement.

### **Changing patterns of growth**

The global crisis has accelerated changing patterns of demand and supply in the world economy, which will have an impact on the products that South Africa produces in the future and the markets they are exported to. Developing countries are growing at a much faster pace than advanced economies and it seems likely that this trend will continue over the next decade, particularly in light of the major fiscal consolidation in advanced economies mentioned earlier. China has already had a big impact on the pattern of South Africa's trade and will continue to do so in future along with countries like Brazil and India. Since 2000, the share of South Africa's exports going to China has increased from 2 per cent to 10 per cent in 2010. At the same time the share of exports going to Europe has declined from 31 per cent to 25 per cent and the share going to the SADC region has remained relatively stagnant at about 10 per cent.

How we respond to changing patterns of demand and geopolitical influence will have a major bearing on our ability to grow in future and the opportunities available to business. Fast growing countries like Brazil are quickly catching up to South Africa in terms of credit ratings and their positioning on global competitiveness rankings. We cannot afford to let our competitiveness fall behind or to miss the opportunities presented by rising demand in new markets for primary inputs and commodities as well as specialised goods and services offered by South Africa.

As the global economy is showing signs of a slow recovery or the possibility of a double-dip recession, we have to look ahead with vision and resolve to chart our way forward. It is becoming more apparent that there is a profound structural shift in the global economy, and that is the rise of emerging markets which will play a key role in the growth outlook for the world economy. This throws up an immediate challenge to the African continent.

Africa and South Africa can and must ride the new wave of growth. By this I mean that, as returns on investment in developed countries have declined as a result of the financial crisis, Africa will prove to be a new source of growth and higher returns for investors seeking new opportunities.

In 2001, The Economist called Africa behind the times. This is not the case now. Even The Economist has admitted that Africa today is a changed continent and this is not due to aid. There are five areas where the game is changing in Africa:

- Change in the political landscape – more participatory governance and a more active civil society has developed.
- Policy improvement – Africa has endured much of the crisis with sound macroeconomic policies. More needs to be done at the micro level.
- Africa is much more open to trade
- ICT revolution in Africa – technology is important because Africa is sparse and it enables opening up banking, savings, etc.
- Information Technology and change in government – strengthens accountability

Africa's big success in the last ten years is the degree to which the continent has become more open to doing business.

### **Conclusion**

South Africa has delivered the World Cup with success and can take pride in that achievement. The one key lesson we can take from the tournament is that soccer is about competitiveness; the competitiveness of teams. The team that will pick up the trophy on Sunday night is the one that is most competitive, one that is better prepared and has the endurance to last the full 90 minutes and beyond. Above all, the winning team will be the one that converts more scoring opportunities into goals than its rival.

If we – government, business and labour – play as a team, we can scale up our collective efforts towards the improvement of the lives of all South Africans. What we have learnt from the six years of preparation for the World Cup is that if we focus our minds we can put an end to poverty and unemployment. Hosting the World Cup seemed a distant possibility six years ago; it is now a reality. We – in all our diversity – felt it. If we can build stadia on time and host a sporting event like the FIFA World Cup, we can build a South Africa where more people have decent shelter, can earn their livelihoods, feed their families, and become participants in the generation of wealth.

Thank you.