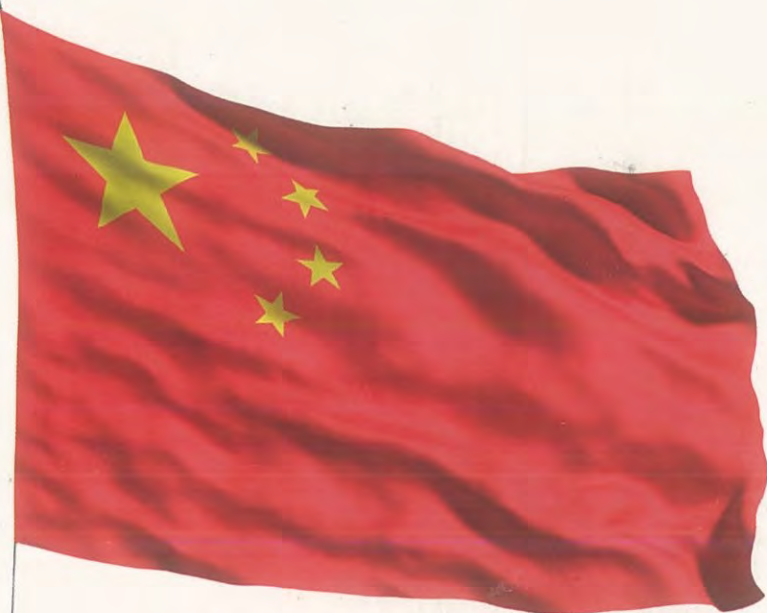


NEW AGENDA

SOUTH AFRICAN JOURNAL OF SOCIAL AND ECONOMIC POLICY



CHINA'S LABOUR PRACTICES

STATE INTERVENTION
OR PRIVATE ENTERPRISE, OR BOTH?

TOP ECONOMIST TAKES ON *BUSINESS DAY* CHIEF

SOUTH AFRICA'S HOUSING POLICY



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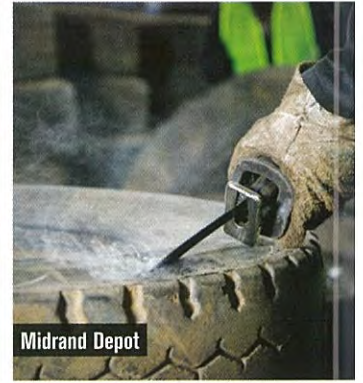


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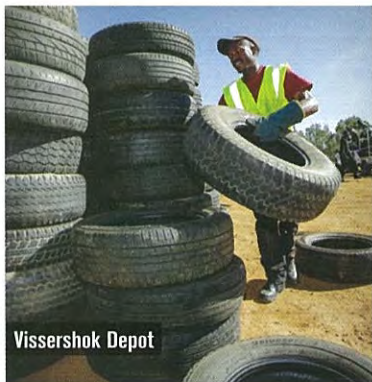
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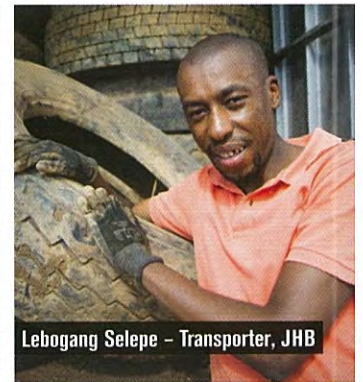
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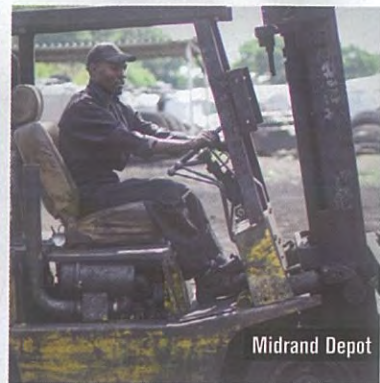


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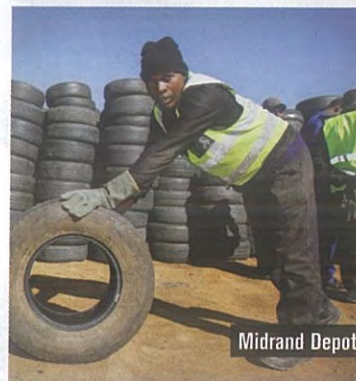
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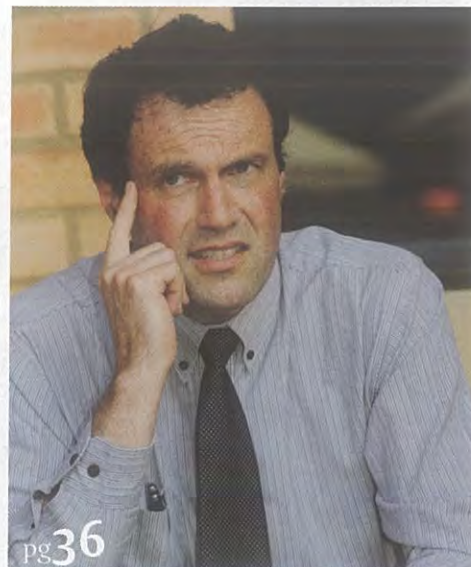
If inequality holds growth back, then highly unequal societies may get caught in a development trap in which neither rapid growth nor the reduction of inequality can be achieved.

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Enough is Enough serves as a primer to the idea of a steady-state economy and will be useful for those trying to introduce these concepts to students and lay audiences.

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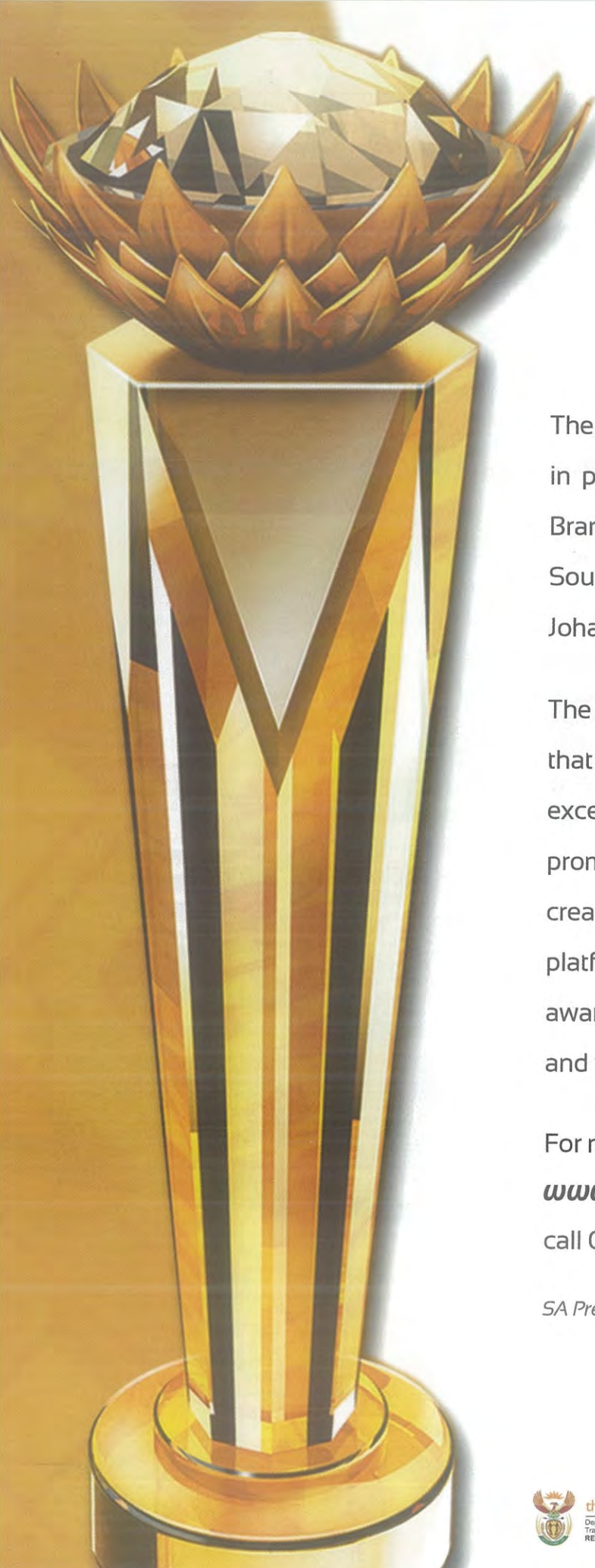
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THE MARKET-VS-STATE DEBATE IS SO 1980s

Peter Bruce argues that the government should “stop making us fight for a bad idea” (*Business Day*, 20 February 2015). His article reacts to Economic Development Minister Ebrahim Patel’s statement that “Slower domestic and international economic growth requires that we do much more to speed up inclusive growth, job creations, radical economic transformation and realising the vision of the Freedom Charter.” Mr Bruce argues that an “importing economy with 25 percent unemployment can’t radically transform itself without increasing that number. It can’t realise the vision of the Freedom Charter without making poverty worse” (his emphasis). He then proceeds to argue that the private sector is the only “truly dynamic force” and that “the only way to begin to cure poverty, inequality and exclusion is by setting business free to make honest profits”.

Is that really the case? It is true that capitalism has brought higher levels of income and wealth than any other system in history. But a free, unregulated market has brought higher levels of social inequality and insecurity.

With the advent of Reaganomics and Thatcherism in the 1980s, the US and UK embarked on large-scale economic liberalisation. Gone were the days of Roosevelt’s G-men (government men) who could be trusted to solve society’s problems with programmes such as the New Deal. Ronald Reagan’s mission was to remove government from people’s lives. When asked whether this would not hurt the poor and the middle classes, the stock answer was that freeing up markets to let business make profits



would lead to a “trickle down” effect: ultimately, the poor would also benefit.

Thirty years on, we can now empirically test that prediction. The evidence indicates overwhelmingly that it is wrong. Thomas Piketty’s *Capital in the 21st Century* shows that, if anything, there has been a trickle up. His extensive work, which covers a host of countries, shows that inequality has been on the rise since the 1980s, when these free market policies were implemented. Inequality is as high today as at the end of the 19th century. The median wage in the US and UK is the same today as in the 1980s: it did not increase in over three decades. Can we therefore really proclaim with such confidence that South Africa only needs to set business free to make profit?

The 1990s saw some further freeing up of business in the developed world, this time of the financial sector. The Clinton administration in the US repealed the Glass-Steagall Act that separated investment banking from commercial banking. Similar reforms in other countries transformed their financial sectors. Financial institutions

boomed, but unregulated trade in exotic financial instruments constructed by so-called “financial engineers” resulted in 2008/09 in the largest recession since the Great Depression – and it was only Big Government that prevented them from going bust. The only reason that South African banks did not suffer similar losses is that they were still subject to exchange controls that prevented them from engaging in such speculation. Can we therefore really proclaim with such confidence that all that is needed in South Africa is to set business free to make profit?

Internationally, businesses increasingly use capital-augmenting labour-saving technology (i.e. technology that makes physical capital goods more productive to the point that less labour is needed). Because of this trend, labour’s share in total income has been shrinking – and the share of business increasing – for more than two decades. The same pattern holds for South Africa. If left alone and freed up, business can be expected to perpetuate this trend, thereby leaving labour an even smaller slice of total income. >>

Economists such as Nouriel Roubini and Dani Rodrik argue that, unless governments intervene to ensure that workers share in the benefits brought by such technology, the world runs the danger of stagnating wages leading to stagnating demand, low growth and still higher inequality. Such intervention includes improved education to create skills and encouraging research in technology that creates higher demand for labour. Can we therefore really proclaim with such confidence that all that is needed in South Africa is to set business free to make profit?

Evidence of the past thirty years teaches us that we cannot. This does not mean that business does not have an important role to play. It also does not mean that we should trust government to solve all our problems. Indeed, we know that SA's education and health systems and our infrastructure management leave much to be desired. Corruption and service delivery are also major issues that need to be addressed, before they totally engulf us.

We may not have regained our trust in the G-men of old, but we certainly do not have an unshakable trust in the B-men running our businesses. Today

we behold both with a healthy measure of scepticism. This means we can move beyond the sterile market-versus-state debate that is so 1980s. Rather, we should ask how the government and the business sector can be true partners, optimising the strengths of both sectors while mitigating the weaknesses of both. A true partnership means that businesses make fair profits in a manner that also allows the government to advance its goal of a South Africa that truly belongs to all who live in it.

By Philippe Burger

PROVINCIAL MISCONCEPTIONS OF THE DEVELOPMENTAL STATE

Our geography has many fortunate consequences. We are part of the continent of the future. We have our natural wealth, and we have our weather. But it has at least one drawback, and a severe one at that. We are far away from the present. It is 15 hours from Asia and America. It is a little closer to Europe, but we tend to gravitate too much to certain parts of it. Wimbledon is not the world.

A consequence of this isolation is a certain provincialism. In some fields, such as cuisine, it results in nothing more than a slight discomfort. It matters more in commerce, where our firms often have little idea how far they are behind good management practice – and are too inward looking and self-satisfied to want to change.

But perhaps the most noticeable arena of provincialism is our press, and its commentary on policy and the state. Prominent columnists and editors frequently make statements about the world that would be greeted with a bemused, not to say condescending,

smile in a more connected country, or at least would be relegated to the darker corners of the media. To take a recent example, a columnist recently made the following statement: “The ‘developmental state’ is just an idea. We borrowed it from Malaysia but failed to check ourselves when they dropped it because it wasn’t developing anything.”

This is somewhat curious. Perhaps the columnist read an *Economist* article or a poorly researched thinktank article about Malaysia and thought he knew about it. In reality, under its National Transformation Programme, Malaysia is currently executing perhaps the single most ambitious effort to implement “new industrial policy” in the developing world. It extends from a fixed target for income – US\$15 000 by 2020 – down through specific targets for a dozen industries and a hundred state key performance indicators (KPIs) tracking the arrival of tunnel-boring machines. This isn’t obscure: there are government websites that detail all of this, down to the individual industry target.

Moreover, Malaysia has certainly not dropped its “developmental state” policy for mineral resources. Its cumulative taxes on oil and gas production make the South African government’s 20 percent free carry – apparently the death-knell for an industry – look rather modest. As, for example, does Norway’s effective tax on oil – above 75 percent – or the UK’s 50 percent tax on oil and gas production over and above ordinary company tax. But Malaysia and Norway are far away, and there is no oil in southwest London, so when nice oil executives arrive and make such statements, no one thinks twice before parroting them.

Another example, in the area of foreign exchange intervention, relates to a different continent. The same columnist wrote in December that “most of the Chilean economic policy elite studied their economics under Milton Friedman at the University of Chicago.”

This was true, once. The writer is referring to the “Chicago Boys”, who

were the policy elite in the first period of General Augusto Pinochet's rule. One might think he had read Juan Gabriel Valdes' book about them. Except, he clearly had only read a review or summary, or perhaps picked up a tidbit at a dinner party. Anyone with even the most superficial knowledge of Chile or the Chicago Boys will know that their hold on policy ended over three decades ago. After a few years of a consumption-led boom, financed by exploding inward flows of international credit, their policies led to economic catastrophe. In 1982–3, Chilean GDP contracted by 14 percent and unemployment soared to 25 percent.

Pinochet fired the Chicago Boys, personally insisted on a state-led devaluation of the Chilean currency, and was then pressured by business itself, as well as exploding labour protests and the reawakening of political opposition, to restore fiscal expansion and industrial policy. The resulting "mixed model" – a Latin American developmental state if ever there was one – has resulted in Chile pulling away from its region. By contrast, the Chicago Boys' brief tenure resulted in no significant difference in growth, whether in Chile's past or its contemporaries in Latin America, and ended with unemployment similar to South Africa's today.

These examples could be multiplied. The Free Market Foundation recently published a report lauding Mexico's reformist government. Three years ago this opinion was heard in connected countries too. But a year ago it became clear that the Mexican reforms were not delivering the growth that had been promised, and today the president's approval ratings are plummeting. The international press is now principally writing about what has gone wrong – but here, being so isolated, we are still talking about it going well.

Unfortunately, provincialism is not the monopoly of the right. If their



Africa – the continent of the future.

views often sound like an ersatz version of late-'80s Thatcherism, swathes of the left sound like ersatz versions of late-'80s Parisian Marxism. It is not propaganda to state that Venezuela is collapsing, and the collapse is not the result of "imperialism". It is the result of a lousy state. It is vitally important to distinguish it from Bolivia, which seems to be achieving remarkable things. Morales and Chavez are different, and the "developmental state" does not result from spouting lines about liberation.

In fact, the single most successful developmental state – albeit a hidden one – may even be the centre of "imperialism" and of "neoliberalism" (at least, its ideas). The US is only superficially laissez-faire. In truth, its states are aggressively developmental. Even Rick Perry, the arch-Republican former governor of Texas, handed subsidies to Chinese companies to build research and development facilities in his state. The US is also home to perhaps the world's most successful industrial policy agency, one that fought and defeated Japan's famous Ministry of International Trade and Industry

(MITI). From the late 1980s, its Defense Advanced Research Projects Agency (Darpa), which created the internet and seeded large swathes of Silicon Valley, helped initiate and fund the US semiconductor industry's fight against Japanese competition.

In all, far from being "just an idea", the developmental state is instrumental in the world's two most successful economies at present – the US and China. It is still alive and kicking in Malaysia, and it exists in different varieties in Latin America, in Chile and, perhaps, Bolivia. But it is more than a slogan. To know these things requires a certain worldliness, and an attitude of modesty that privileges learning, that finds phrases like "we already know that" or "we already do that" to be anathema. It may be that, before we can succeed in building a developmental state in Africa, we must first learn to learn, and thus escape the provincialism that constrains us now. 

By Alexander List

REACHING NEW GEOLOGICAL HEIGHTS

Geology offerings in the Faculty of Science and Agriculture at the University of Limpopo are taken to new heights, reports Executive Dean Professor Hlengani Siweya.

When the University of Limpopo was created in the mineral-rich province in 2005, it was realised that the lack of geology in the curriculum could negatively affect regional development. Initially, the Faculty of Science and Agriculture established a series of Geology modules that were incorporated into the Physical and Mineral Sciences Bachelor of Science degree, combined with either Physics or Chemistry, and the first students were enrolled in the programme in 2008. The structure of the degree followed the format of most of the university's BSc degrees, with Chemistry, Geology, Physics and Mathematics in first year; Geology and either Chemistry and Physics or Physics and Maths in second year; then in third year, depending on the second-year selection, Geology and either Chemistry or Physics.

Although this course of study produced a graduate with a broad science background, only 33% of study was devoted to each of the major subjects (Geology and either Chemistry or Physics), thus the specialist knowledge required by many sectors of the industry, as well as postgraduate progression, was not fully developed.

As a result, in late 2010, Professor JN Dunlevey was recruited to restructure the

Geology programme and develop this field of science at the university.

After consultation with other universities, the mining industry, and a number of earth science institutes, it was decided that a double-major structure should be adopted, and the specialised BSc Geology degree was proposed.

This new offering starts with the same first-year modules (Chemistry, Geology, Physics and Mathematics). But, in the second year, modules in Geology and Economic Geology are combined with either Chemistry or Physics, while in the third year, only Geology and Economic Geology modules are taken. This creates a specialised study programme in which two-thirds of the degree are devoted to Geology.

In conjunction with this specialised undergraduate programme, the previous BSc Geology was expanded to create specialised offerings. The BSc Honours Geology degree is similar in many ways to those offered at other South African universities, being somewhat academically focused on Earth Sciences. The BSc Honours Geology and Mining degree focuses on the demands of the industry, development and extraction of ores and valuable materials, while the BSc Honours Mineral Processing and Beneficiation degree places emphasis on the mineralogy and geochemistry of rock

and minerals related to extracting the valuable component from the ore.

In addition to the academic aspect of the new modules, field excursions that enable students to visualise the theoretical aspects in the natural environment are also offered.

The need for these new academic programmes is exemplified not only by the interest and support expressed by the industry, but also student demand. The first intake for the BSc Geology programme in 2015 had to be restricted due to the development of facilities, and the number of applicants for the BSc Honours programmes was over three times the number of available places.

The development of the new Geology Honours programmes, which include a research module, has stimulated postgraduate Earth Science Research in the School of Physical and Mineral Sciences, with MSc projects in fields as diverse as hydrogeology, stratigraphy, fossil fuels and economic geology.

To support the new developments, a team of experienced earth scientists, including Professor B Millsted, Dr ML Diko, Dr NQ Hammond and Dr A Tessema, has been assembled. These highly qualified colleagues will, under the stewardship of Professor Dunlevey, guide the development of the new undergraduate and post-graduate Geology programmes, and supervise the X-Ray and SEM facilities currently being developed.



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UPGRADE INFORMAL SETTLEMENTS

A strategic approach

By Ivan Turok

Swelling informal settlements are among the greatest social challenges facing South Africa, and thus, upgrading these areas is imperative to social change.

Swelling informal settlements are among the greatest social challenges facing South Africa. Shack dwellers are exposed to hardship, insecurity and physical hazards from living in squalid conditions on unauthorised and unserviced land. This is a source of growing frustration, anger and violent protest, since people believe they are being denied fundamental rights. Government is ambivalent about these places and doesn't know what to do. The result is piecemeal initiatives and periodic evictions. The clearance of 800 people from Lwandle, outside Cape Town, in June 2014 was the latest episode.

According to the 2011 Census, there are almost 2 million people living in informal dwellings, 1.1 million in the eight metropolitan areas. This is almost 1 in 5 of the total metro population, and the absolute numbers are growing.

For the last 20 years, the government has tried to give everyone in need of better accommodation a fully serviced house. This assumes that informality is purely a housing problem and that *in situ* upgrading is inferior and unpalatable. "Breaking New Ground" (the 2011 cabinet-approved

comprehensive housing plan for the development of integrated sustainable human settlements) and the National Development Plan made the case for a policy shift towards upgrading because free housing for all is unrealistic and backlogs are growing. However, this change has been very slow to come about. Upgrading is rarely mentioned in the housing minister's speeches.

With uncertain national political and financial support, most provinces and municipalities have been lukewarm or even hostile towards upgrading. They deplore land invasions and lack the required know-how for upgrading. It seems so much more complicated than building on new greenfield sites because of the need to work with communities, who can be fractious and disruptive. The process may also be technically difficult if the site is hazardous, subject to legal impediments or the landowner is uncooperative.

Some municipalities have created temporary relocation areas to decant shack dwellers while they begin to formalise layouts and service the former shack sites. This has been very

controversial because of the physical and social dislocation, the unpredictable timescale for living in these "transit camps", and the fact that many families have not been allowed to move back to their original locations.

Some shack settlements have been provided with interim services such as electricity, mast lighting and shared toilets. Otherwise, the most conspicuous distributions have been blankets, food parcels and zinc sheets – stopgaps that react to crises as they emerge, to compensate the victims of shack fires, flooding and xenophobic attacks for their immediate material losses. It is often left to NGOs and community-based organisations to undertake more sustained initiatives to improve local conditions.



Above all, informal settlements need to be seen as integral parts of the city occupied by motivated and resourceful citizens, not isolated squatter camps full of people who are destitute and desperate.

A boost in government funding for the National Upgrading Support Programme (NUSP) in 2013 suggested renewed commitment to *in situ* upgrading, matched by a somewhat implausible target to provide at least 400 000 households in 1 774 informal settlements (about one-third of the total) with tenure, basic services and access to amenities.

One of the main questions facing this and other upgrading initiatives is whether sufficient investment can be mobilised to transform shack areas into more liveable >>



“
There are also sizeable benefits to be gained from proactive efforts to prevent problems emerging, and from realising the potential of stronger communities.

and productive environments. This means recognising the intense demand from poor people to live in these relatively accessible locations and making more efficient use of the land by building upwards and improving the internal structure of each settlement. Huge pressure on land and underinvestment – in housing, infrastructure and people themselves – are fundamental problems for informal settlements. Deficient investment underlies the issues of unemployment, vulnerability and inadequate services

and shelter. Therefore one of the main objects of policy should be to help inject resources into developing local assets of all kinds that will generate income and improve people's life chances. It is vital to enhance jobs and livelihoods so as to lift families out of poverty in a way that can be sustained.

Success depends on building a compelling case and the institutional capabilities to steer investment into these areas. Greater clarity of purpose about in situ upgrading is necessary to galvanise a

larger and more sustained effort. In short, different public, private and civil society stakeholders need a more cogent and convincing sense of where they are going if the current commitment to informal settlements is to be stepped up.

THE ECONOMIC CASE FOR UPGRADING

The economic case for investing public funds in informal settlements has been neglected to date. One important argument is that many offer affordable



environments that are accessible to income-generating opportunities and operate as entry points into the urban labour market. This is why migrant groups occupy these areas in the first place, despite the risks. Surveys suggest that employment rates are much higher than in rural areas and only slightly lower than in formal urban areas. However, the jobs that shack dwellers tend to find are of poor quality and few seem to progress to better jobs over time. Policies should build upon this foundation and reinforce

people's skills and competencies.

There are also sizeable benefits to be gained from proactive efforts to prevent problems emerging, and from realising the potential of stronger communities. Spending on prevention (of social problems, crime, protests, flooding etc.) is highly cost-effective in achieving better outcomes for households and reducing the pressure on public health, welfare, criminal justice and emergency services.

Upgrading shack areas could stimulate a cumulative process of improvement in peoples' lives that will create more stable and prosperous communities. This could apply to the areas themselves (through enhanced human capabilities and stronger social networks) and to the wider economy through progressive improvements in the quality of labour supply, entrepreneurial dynamism, property values, household assets and additional economic activity. Unleashing the energy latent in the aspirations of informal settlements is vital to achieve the national goal of more inclusive growth.

With more reliable incomes, people themselves could invest more in their properties and surroundings, and stimulate upgrading. They could pay more for local services, which would encourage additional services to be supplied. Because employment promotes human dignity and wellbeing, and gives daily structure to people's lives, having more people in work would reduce social marginalisation, crime and other antisocial activities. A jobs-and-livelihoods agenda that enables people to contribute to society is also more likely than welfare to enlist the support of better-off communities and help social integration.

ELEMENTS OF A STRATEGIC APPROACH

Upgrading practices need to shift from piecemeal initiatives towards a more strategic approach. There are several ingredients. First, upgrading needs a more persuasive rationale to justify long-term

public investment. The case needs to go beyond poverty alleviation and crisis response, because government budgets are stressed and there is competition for well-located urban land. It needs to incorporate economic potential alongside a concern for poor living conditions. Above all, informal settlements need to be seen as integral parts of the city occupied by motivated and resourceful citizens, not isolated squatter camps full of people who are destitute and desperate.

Second, informal settlements need greater political support at all levels. Their requirements should feature in formal planning procedures, especially municipal integrated development plans (IDPs), housing plans and spatial development frameworks. High-level endorsement is necessary to unblock bureaucratic obstacles, interact with local gatekeepers and resolve disputes. Stronger grassroots organisation within each community can help to articulate local needs and hold other partners to account.

Third, upgrading needs enhanced resources to move beyond small-scale projects. Attention needs to be paid to developing the people as well as the place and property. Integrated development requires a cadre of capable onsite practitioners with diverse skills in land, engineering, design, building and project management: people who are creative and flexible, able to work across professional boundaries, experienced at engaging local communities, and negotiating mutually beneficial outcomes among stakeholders. Rather than specialised experts imposing their own solutions, co-production through multidisciplinary teams is critical.

Fourth, a phased approach requires thinking ahead and setting priorities, recognising that everything cannot be done at once. Community preferences should inform the phasing of actions. Careful sequencing should help to build confidence and credibility, and spur a cumulative process of improvement. The idea is to find successive interventions that trigger more generalised ➤



A mother sits with her baby in the aftermath of the Lwandle evictions in 2014.

development, as progress in one sphere supports improvements in others and multiplies the beneficial effects.

Fifth, individual settlements should be treated differently, recognising the particular functions that each performs in the urban system and their long-term potential. Some shack areas should only have a temporary existence because of their hazardous locations. Policies need to be tailored to the circumstances of the area, the opportunities and amenities nearby, and the social composition and support needs of local residents. For example, inner-city precincts occupied by young adults seeking a foothold in the job market need small low-cost rental units rather than family accommodation.

Sixth, upgrading should be done through partnerships between stakeholders, who achieve more by working together and combining their resources. Municipalities have particular responsibilities to sort out the legal issues, acquire land, confer development rights, negotiate land swaps, and so on. The knowledge and buy-in of the community is also essential, with a seat at the table where decisions are made. Municipal officials cannot just appoint contractors to get on with the job.

They need an everyday presence on the ground to listen, look and learn from residents. Community-based organisations also need to be strengthened for joint problem-solving

and planning. Organisations such as Shack Dwellers International have shown the value of involving communities at various stages in the upgrading process.

Experience shows that sustained cooperation on practical projects with clear timelines and accountable leadership can restore trust in government and bring stability to fragile communities. Working in partnership requires flexibility, patience, compromise and a willingness to share the credit for success. It implies some devolution of power to make decisions and spend resources to the neighbourhood level in the interests of responsiveness.

A TWO-STAGE FRAMEWORK

In order to simplify the initial choices in

devising a road map and differentiating between locations for upgrading, it may be helpful to think about a two-stage perspective. The first stage is about building the resilience of the community to cope with stresses. It may be particularly appropriate for temporary settlements occupying sites that are unsuitable for permanent habitation. The second stage involves a deeper process of transformation.

Resilience recognises the vulnerabilities and insecurities facing poor communities, but also their hopes and agency in participating in development schemes and increasing their economic prospects. Better-organised communities will have a stronger voice and more influence over decisions affecting their areas. The focus is on improving the position of the people themselves, rather than their physical circumstances. It implies strengthening their robustness and resourcefulness

- to recover from periodic shocks and crises (such as shack fires flooding, or the loss of livelihoods) by having some reserves to fall back on
- to overcome hurdles and resist threats (such as eviction, minor crime, intimidation, or risks to public health from the spread of communicable diseases)
- to adapt to ongoing pressures and hardships (such as rising food and fuel prices, or the lack of electricity, clean water or sanitation)
- to stand a better chance of improving their economic situation through information and expertise.

The process may involve enabling families, groups and civic movements to pull together and take direct action to be more self-sufficient. It may mean advocating their rights by exerting pressure on the state to prevent unlawful evictions and improve basic services.

A constructive approach may be more effective than adversarial protest activity. It means building networks among different actors to explore mutually beneficial outcomes. Community mapping, savings clubs and exchanges

of experience between settlements may strengthen their organisations and financial resources. State-sponsored community work programmes can play a valuable role in transferring skills, work experience and income to people in the course of providing socially useful local facilities. Greater security of tenure is an important demand to give residents more stability and collateral to raise credit for livelihood activities or exceptional purchases or costs, such as funerals.



Organisations such as Shack Dwellers International have shown the value of involving communities at various stages in the upgrading process.

The second stage of transformation refers to the achievement of profound improvements in local economic and physical conditions. It goes beyond incremental upgrading and mechanisms to cope with pressures and problems. It implies a “step change” both in residents’ capabilities to secure their future wellbeing and in the physical attributes and liveability of the place. The level of social organisation shifts to anticipate potential threats and other future events, enable farsighted decision-making and higher levels of coordination all round.

There is an increase in local productive capacity and employment through the provision of local services and workshops, greater use of new technologies, and higher levels of productive investment. With better schools and training facilities, people are likely to have more advanced competences, enabling them to obtain

better jobs. A fundamental objective is to make more efficient use of the land by building upwards rather than outwards and improving the internal structure of each settlement.

These changes are substantial and qualitative in character. Places will become more stable and secure, and function more effectively to improve people’s life chances. Average incomes will be higher and the quality of local facilities and amenities will improve. People will start using more robust building materials and techniques, which will also afford better protection from the elements. Major investments will be made in public infrastructure networks to transform the built environment.

Higher levels of community organisation will enable physical restructuring to take place through the consolidation of land parcels, rearrangement of haphazard dwellings and creation of new street layouts and public spaces. This will release value from the land for local reinvestment and transform circulation patterns throughout the settlement. Coordinated redevelopment will permit four- or five-storey buildings, with the ground floor reserved for service providers, business workshops and other enterprising activities. Multi-storey apartments will raise residential densities, give households more private space and reduce the health and social problems linked with overcrowded homes.

Higher economic densities, more spending power and improved infrastructure will increase productive activity and jobs. These neighbourhoods will be better integrated into the wider urban labour market and education system through an efficient transport network. The government could recover more of the cost of providing infrastructure and services through taxes and user charges, or via rent through owning the land. 

The author is the acting executive director of the Economic Performance and Development Unit at the Human Sciences Research Council.

DEPUTY PRESIDENT CYRIL RAMAPHOSA UNVEILS SECOND MEERKAT ANTENNA

By David Mandaha



Deputy President Cyril Ramaphosa and the Minister of Science and Technology Naledi Pandor unveiled the second of the 64 MeerKAT antennas on 28 February 2015.

The South African MeerKAT radio telescope, currently being built outside Carnarvon in the Northern Cape, is a precursor to the Square Kilometre Array (SKA) telescope, and will be integrated into the SKA during the first phase of construction. The SKA is being built in Africa and in Australia.

"It is particularly significant that eight other African countries will be involved in hosting the second phase of the project. This promises to establish Africa as a hub for expanding scientific inquiry," Deputy President Ramaphosa said at the unveiling.

The event was attended by ministers from the Presidential Infrastructure Co-ordinating Committee (PICC), and the Northern Cape Premier Sylvia Lucas, local mayors, community members, and ambassadors and high commissioners from France, Germany, Portugal, China, Zambia and Mozambique.

Appreciating the broader benefits of

this project to South Africa, government has identified the SKA as a strategic infrastructure project, overseen by the PICC. During the visit, Deputy President Ramaphosa welcomed the huge benefit brought to Africa by the hosting of the SKA, and urged that full advantage of this huge project be taken. "The 699 students and postdoctoral fellows that have been supported through the SKA South Africa bursary and fellowship programme are at the forefront of this effort. The project is developing technical and artisanal skills, while producing a new cohort of young scientists," he said.

He described the project as an intervention that will improve the lives of people. "The SKA forms part of efforts to transform South Africa's economy through human capital development, innovation, value addition, industrialisation and entrepreneurship. It will create jobs, not only during the next decade or so of construction, but also for the next 50 years of operation and maintenance. Science and technology can do much in the fight against poverty, unemployment and inequality," Deputy President Ramaphosa added.

He also said the project was developing skills needed by South Africa: "Scientists are not born. They are made. They are the products of a society that values knowledge, promotes learning, and rewards innovation. They are products of a society that reads, of schools that work, and parents that are engaged in the intellectual development of their children."

The Deputy President commended Dr Bennie Fanaroff, Director of SKA South Africa, for his sterling work on the project, and unveiled a plaque naming the second dish in his honour. Minister Pandor and her predecessors were also praised for their contribution.

Minister Pandor vowed that the SKA project would meet its deadlines. "By the end of 2016, we will have the 64 MeerKAT dishes ready for commissioning, and by 2017 the telescope will be ready to do science. We are proud that, even before the MeerKAT has been completed, five years of observing time on it have already been allocated to more than 500 radio astronomers, 85 of them from Africa. This demonstrates massive confidence in South Africa's scientific infrastructure, in which the Department of Science and Technology continues to invest," she said.

The SKA will help to answer fundamental questions about the universe, including how the first stars and galaxies were formed after the Big Bang, how galaxies have evolved since then, the role of magnetism in the cosmos, the nature of gravity, and the possibility of life beyond earth.



For more information visit: www.dst.gov.za

UK-SA NEWTON FUND MAKES SIGNIFICANT PROGRESS

By Veronica Mohapeloa

Stakeholders of the United Kingdom-South Africa Newton Fund met in London early last month to assess progress made in the programme's first year of operation.

Co-hosted by the Department of Science and Technology's (DST) Deputy Director-General: International Co-operation and Resources, Daan du Toit, and his UK counterpart, Professor Robin Grimes, the task-force meeting reviewed the surge of activity undertaken in year one, including the nine joint research calls launched, and significant matched funding made available by the DST and other agencies.

The UK has Newton Fund partnerships with several countries, including India, China, Brazil, Mexico and Malaysia. The UK Department for Business, Innovation and Skills (BIS) commended South Africa on being the most active partner country in terms of discussions for potential future activities.

UK innovation agency, Innovate UK, presented a host of potential activities, worth more than £5 million over the next four years, sparking enthusiastic discussions and initial negotiations with potential partners.

Stakeholders agreed that more could be done to open up opportunities to South African beneficiaries. The DST and BIS will explore the possibility of creating a web-based portal to serve as a "one-stop shop" for UK-SA Newton Fund information on delivery partners, activities and all available opportunities.

The second year of the programme will see serious discussions on benefiting other countries in Africa, starting with negotiating links to the existing UK-Egypt Newton programme, exploring the widening of existing activities, and considering formal trilateral or



multilateral agreements with a few selected African countries.

The Royal Society, the British Academy, the Royal Academy of Engineering and the National Research Foundation (NRF) have set aside up to £1.1 million to help strengthen the research and innovation capacity of researchers from other partner countries, enabling them to collaborate with researchers in the UK.

The UK and South Africa were expected to have approved the second-year activities by 1 April 2015. The two countries launched the UK-SA Newton Fund last year to support science, technology and innovation initiatives for socio-economic development. Both countries committed up to R140 million towards the fund per year over five years. This includes contributions from non-governmental bodies and the private sector, such as pharmaceutical company GlaxoSmithKline.

Included in the partners is the UK and SA Medical Research Councils' joint programme for research funding, aimed at

providing evidence to improve strategies for the prevention, detection and control of tuberculosis.

Up to £1 million of joint funding from the UK's Science and Technology Facilities Council, the NRF and SKA South Africa will be made available to develop a new astronomy research programme in Africa, centred on the African Very Long Baseline Interferometry Network.

The Technology Innovation Agency is collaborating with inter alia the Royal Academy of Engineering to build researchers' capacity to commercialise their innovations. Furthermore, three research chairs in the areas of water, food security and energy are being considered.



For more information visit: www.dst.gov.za

PRODUCTIVITY ISN'T THE PROBLEM:

Wages, productivity and labour's declining income share

Philippe Burger investigates suggestions in the media that labour relations are precarious in South Africa, with widespread mistrust between business and labour leaders. This is an edited, non-technical version of his presidential address to the 2014 annual general meeting of the Economic Society of South Africa¹.

Business leaders complain about expensive labour and business-unfriendly labour legislation, while labour leaders complain about persisting inequality. Macroeconomic data indicate that labour's share in gross value added (GVA) has declined significantly during the two decades following the first democratic election in 1994. The question is: "Why did labour's share decrease?"

While GDP calculates national income from the expenditure side of the economy, GVA calculates national income from the production side of the economy. GVA is equivalent to GDP excluding net taxes on production and products. It is comprised of two components: labour remuneration and the gross operating surplus, which is capital's share in GVA.

With the ownership of capital (and thus income from capital) being more concentrated than salary and wage income, one might therefore expect that the falling share of labour and a rising share of capital in GVA contribute to growing income inequality.

International studies indicate that the decline in labour's share is not unique to South Africa. Indeed, it has been a general trend in most OECD (Organisation for



Why has labour's share of national income decreased?

Economic and Co-operative Development) and many emerging market economies for the past three decades. In 26 of the 30 OECD countries, labour's share fell. The OECD reports that, while the median labour share in OECD countries was 66.1 percent in the early 1990s, it dropped to 61.7 percent in the late 2000s. The fall in labour's share of income has been more pronounced in emerging market economies. Even China has seen a significant fall.

Various contributors suggest that this shift is partly due to large and significant technological changes, particularly

in information technology. These changes increased the productivity of capital relative to that of labour, hence contributing to a decreasing share of labour in GVA and stagnant or slow-growing wages. In OECD countries, about 80 percent of the drop in labour's share can be ascribed to technological change that caused companies to substitute capital for labour.

Another 10 percent originates from increased global competition that sees companies moving parts of their value chains offshore to benefit from low-cost labour in predominantly emerging market countries. The OECD argues that offshoring has undermined the bargaining position of lower skilled workers in particular. This, together with decentralisation in labour market bargaining structures in many countries, contributed to a lower labour share.

Indeed, because the income of the average capital owner in OECD countries exceeds the income of the average wage earner, there is a strong correlation between the advance of inequality and the fall of labour's share in GVA.

However, technology and globalisation are not the only factors. In its empirical analysis, the International Labour Organisation (ILO) considered the impact of financialisation, globalisation,

technology, and labour market conditions such as declining union density and deteriorating collective bargaining mechanisms.

In developed countries, all four contributed to the deterioration in the share of labour, with financialisation contributing 46 percent, while globalisation (19 percent), technology (10 percent) and labour market conditions (25 percent) contributed to a much smaller extent. In developing countries, technology somewhat improved labour's share (the ILO ascribes this to "technological catch-up"), but this was more than offset by the negative effects of financialisation, globalisation and weaker labour market institutions. Again financialisation contributed the largest part.

The discussion below will argue that financialisation and more aggressive returns-oriented investment strategies applied by, for instance, large investment institutions translated into higher required rates of return on capital, which in turn caused an increased implementation of capital-augmenting labour-saving technology that reduces labour's share in income. A falling share of labour in income also means, by definition, that real wages increase at a slower rate than average labour productivity. Contrary to views frequently expressed in the popular media, productivity has indeed increased faster than wages in South Africa.

LABOUR'S FALLING SHARE IN SOUTH AFRICA

In South Africa, the share of labour remuneration in GVA was 56 percent in 1993, while that of capital (gross operating surplus) was 44 percent. Labour's share subsequently declined to 48 percent in 2008, before improving to 52 percent. Prior to 2008, and with the exception of the recessionary period in 1998 and the near-recession in 2003, the real percentage increase in the rand amount of GVA allocated to capital exceeded that of labour. This

has turned around since 2008, i.e. after the onset of the international financial crisis. Nevertheless, over the full period, the rand amount allocated to capital increased at a higher rate than the amount allocated to labour.



Financialisation and more aggressive returns-oriented investment strategies ... translated into higher required rates of return on capital, which in turn caused an increased implementation of capital-augmenting labour-saving technology that reduces labour's share in income ... Contrary to views frequently expressed in the popular media, productivity has indeed increased faster than wages in South Africa.

The agricultural sector is excluded from the GVA, labour and capital shares data below, both because of the volatile, seasonal nature of the sector and because the data used in this analysis exclude it.

In addition, the general government sector is excluded because the profit motive of firms and government differ and to ascertain whether or not the improved share of labour since 2008 was due to the government spending

more on labour. Excluding government does not affect the decreasing trend in labour's share prior to 2008 or the slightly improving trend after 2008.

However, the picture changes when considering the implications of data from manufacturing. It would be no overstatement to say that the manufacturing sector has been imploding, particularly since the advent of the 2008 recession. South Africa has been de-industrialising since the mid-'90s, but the speed of this increased significantly since 2003. The real percentage change in the manufacturing sector's gross value addition to the economy turned negative since 2008, while the share of manufacturing in the total GVA of the economy shrank from 21 percent in 1994 to 11 percent in 2013. None of the other sectors in the economy display such deterioration. The South African manufacturing sector is not unique in this instance. Several emerging market economies (including China) suffer from what Dani Rodrik terms "premature de-industrialisation".

The fall in manufacturing's GVA affected its profitability significantly, with its gross operating surplus deteriorating since 2000. Indeed, the rand amount of GVA allocated to the manufacturing sector's gross operating value has been shrinking in real terms by between 10 and 23 percent per annum since 2008.

And yet, the amount allocated to labour in the manufacturing sector remained positive on average. This means that, in real terms, those still employed in the manufacturing sector are better off and labour's share in the manufacturing sector's GVA increased.

However, this is an improving share in a shrinking sector. Once the ailing manufacturing sector is subtracted from the GVA figures, the improved labour share in GVA since 2008 disappears and *labour's share displays a continuing deterioration over the two decades, while capital's share displays a concomitant continuing increase* (Figure 1). ➤➤

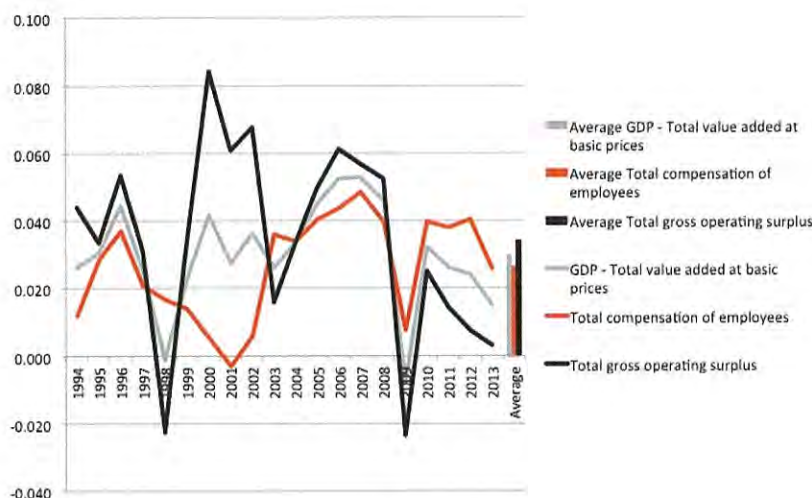


Figure 1. The real percentage increase in GVA and the amounts allocated to labour and capital

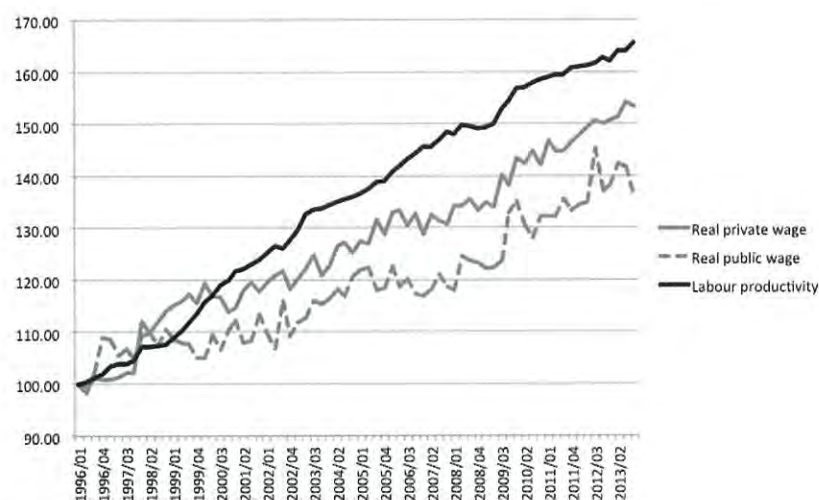


Figure 2. Labour productivity and real wages

The overall fall in labour's share raises a new question: which sectors contributed to the fall? In the mining sector, with its significant labour market turmoil since 2012, there has been negative real growth in the GVA allocated to capital and a positive growth in the allocation to labour. A similar pattern emerges for the recessionary periods in 1997 and 2009, as well as 2003 (when the rand appreciated significantly, thereby undermining mining income and profits).

During the commodity boom years of 2004–8, in contrast, both the amounts

allocated to capital and labour increased significantly in real terms, although the amount allocated to capital increased much more. A similar pattern emerges when considering the full two decades. On average, the amount allocated to capital in the mining sector has grown at almost double the rate compared to that of labour.

With the exceptions of the electricity, gas and water, and the finance, real estate and business services sectors, the amount allocated to capital increased faster than the amount allocated to labour in all

other sectors, thereby contributing to a falling share of labour and an increasing share of capital in GVA. Electricity, gas and water, even though it is a corporate sector, is dominated by parastatals and hence not subject to the same investor pressure to maximise profit as the other sectors. The financial sector is an exception because it includes highly remunerated individuals, such as portfolio managers, who earn bonuses.

Econometric analysis of the relationship between GVA, labour compensation and gross operating surplus done for this article, confirm the patterns observed above.³ The analysis shows that a 1 percent increase in GVA leads to a 1.12 percent increase in gross operating surplus. In contrast, the same increase leads only to a 0.68 percent increase in labour compensation. These results confirm the respectively rising and falling shares of capital and labour in GVA.

WAGES, PRODUCTIVITY AND CAPITAL

Economic theory suggests that, when labour's share in GVA is falling, average labour productivity (calculated as GVA divided by the number of workers) increases faster than real wages. Data from the South African Reserve Bank indicate that labour productivity indeed increased faster than both public and private sector wages. Surprisingly, given what is often reported in the press, public sector wages increased slower than private sector wages. In the 18 years depicted in Figure 2, labour productivity increased by 66 percent, real private sector wages by 53 percent and real public sector wages by 47 percent. (Figure 2)

Economic theory also suggests that the combination of a shrinking labour share and wages increasing slower than productivity can be explained by technological change that augments the productivity of the physical capital used in the production process.

There are three types of productivity-enhancing technological progress: capital-augmenting, labour-augmenting,

and total-factor-augmenting (i.e. labour and capital together).

A further distinction should be made between two types of capital-augmenting technology. In the first, physical capital and labour are “gross substitutes”, which leads to companies substituting capital for labour and, subsequently, to a falling share of labour in GVA. Such technology is therefore *capital-augmenting labour-saving* technology. In the second, capital and labour are “gross complements” and the augmentation of capital’s productivity through technological improvements increases the demand for labour faster than the demand for capital. As a result, labour’s share in GVA will increase, even though it is capital’s productivity that has been enhanced. In the South African economy, labour’s decreased share suggests progress in capital-augmenting labour-saving technology.

Furthermore, average labour productivity will increase faster than wages in this situation. Accordingly, the percentage change in average labour productivity cannot be used as a one-for-one indicator to establish how much real wages should have increased.

BARGAINING POWER OF LABOUR AND CAPITAL

In addition to the role of technology, changes in labour power can also explain a falling labour share in GVA.

In a 1999 article called “Democracies pay higher wages”, which focused on manufacturing, Dani Rodrik showed that wages in democracies are usually up to 50 percent higher than in non-democracies. Political participation and political competition strengthen labour’s bargaining position and income is shifted from capital to labour. As a result, labour has a higher share in income. He also cites evidence of wages growing faster than productivity during times of political transition. This has not been the case in South Africa.

According to Rodrik, three factors – apart from labour productivity – determine wages:

- labour’s relative bargaining strength (e.g. through unions)
- labour’s income options outside the private market economy (e.g. public sector employment and the informal sector, both affecting the lowest wage for which workers are willing to work)
- capital’s outside income options (e.g. investing in another country). Should the return on outside options increase, it puts downward pressure on the share allocated to labour.

Globalisation and financialisation – with the latter’s associated increase in aggressive returns-oriented investor institutions – indicate stronger outside income options for capital. If financial investors have better outside options, the required rate of return on capital increases. The higher rate of return that shareholders require (or what is the same thing: a lower saving rate at any given rate of return), will result in a reduced capital/output ratio, and put pressure on firms to deliver those higher returns.

Causation then runs from a higher required rate of return to a changing capital/output ratio, and on to capital-augmenting labour-saving technological changes and a fall in labour’s share. As such, movements in the capital/output ratio and labour’s share will be

positively correlated (i.e. if the one increases, so does the other), with a decrease in both reflecting increased investor pressure for higher returns.

The data show that the capital/output ratio and labour’s share in South Africa indeed are positively correlated. This suggests that it is a higher required rate of return of financial investors that, via a lower capital/output ratio, puts pressure on firms to implement the capital-augmenting labour-saving technology.

With the capital/output ratio acting as a proxy for the pressure to improve returns and the role of capital augmenting labour-saving technology, it is possible to explore specifically the impact of capital augmenting labour-saving technology on wages.

Figure 3 subsequently shows what the real private and public sector wages would have been had the capital/output ratio remained constant at its value at the start of 1997. It shows that both private and public sector wages would have increased more or less in line with productivity. The empirical evidence therefore supports the notion that the increasing use of capital augmenting labour-saving technology contributed to the reduction of labour’s bargaining power (Figure 3). ➤

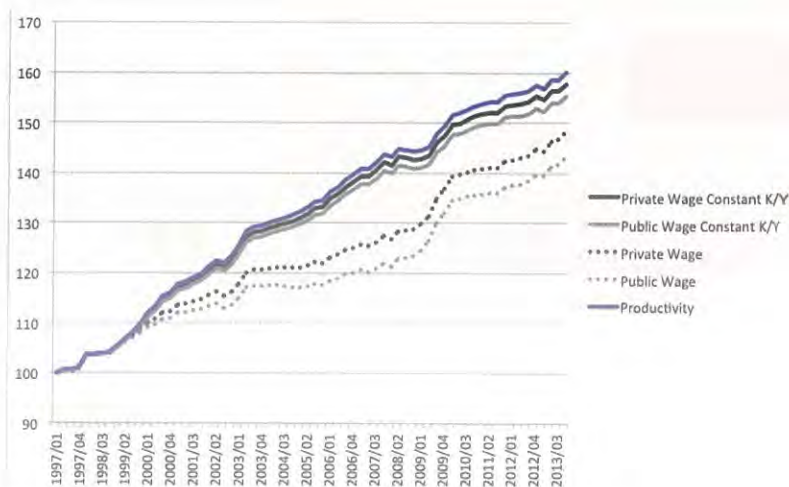
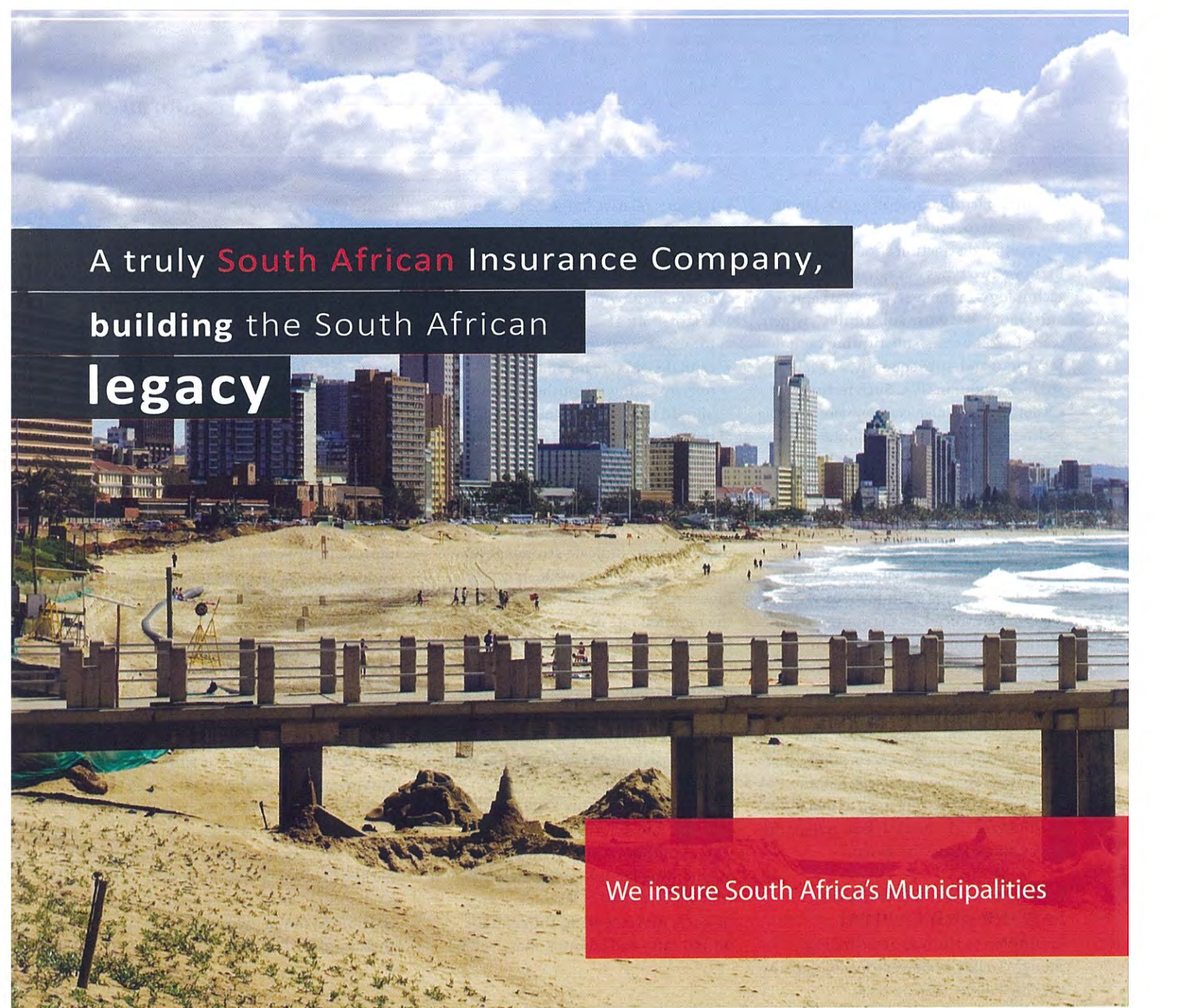


Figure 3. Real wages if the capital/output ratio remained constant



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CONCLUSION: POLICY IMPLICATIONS

At 52 percent, the percentage share out of income that labour received in 2013 is significantly lower than in 1994, when it stood at 56 percent. Although this is better than the low of 48 percent in 2008, the improvement results from the profitability crisis in the manufacturing sector and not an improvement in labour's overall position. Indeed, when the manufacturing sector is excluded from the analysis, labour's share displays a continuous decreasing trend in the two decades since 1994, decreasing from 57 percent to 49 percent.

The analysis shows that, for every 1 percent increase in the real amount of GVA, real gross operating surplus improves by 1.12 percent, while the real amount of labour remuneration only improves by 0.68 percent. Economic theory suggests that the increasing use of capital-augmenting labour-saving technology caused labour's share to decrease. In addition, in the two decades since 1994, the percentage increase in productivity outstripped the percentage increase in both private and public sector wages. More specifically, over the period 1996–2013, productivity increased 66 percent, while real private and public sector wages increased 53 percent and 47 percent.

The analysis suggests that the bargaining power of labour decreased significantly over the two decades since 1994. The increased use of labour-saving technology and higher levels of globalisation and financialisation (the financial sector is the largest sector in the South African economy) all contribute to the weakening of labour's bargaining power since 1994. The declining labour power thus contributed to a lower share of labour in GVA.

Because capital income is more concentrated than labour income, a falling labour share contributes to a deteriorating income distribution. Hence, the policy-related question would be whether the decrease in

labour's share can be arrested *without undermining economic growth* and, if so, how it can be arrested.

Merely passing legislation that redistributes income from capital to labour might arrest the falling trend, but, if designed and implemented without care, it can also undermine economic growth. Nevertheless, recent studies indicate that measures such as minimum wages, welfare benefits that encourage human capital creation, and more progressive income taxes do not necessarily undermine economic growth. Thus, these measures deserve attention as possible candidates to arrest the falling labour share.

Economists such as Laura Tyson also argue that stagnating wages (which is linked to a falling labour share) contribute to stagnant aggregate demand and hence "secular stagnation". She recommends that workers share in corporate profits, citing studies that show a positive correlation between profit sharing and productivity.

Furthermore, when under pressure to improve profitability, firms may prefer to implement capital-augmenting labour-saving technology. If this is implemented with capital and labour being gross substitutes (e.g. ATMs that replace human bank tellers), capital captures a larger share of income. For labour's share not to decrease, capital and labour need to be gross complements, not substitutes, in the implementation of such technology.

Alternatively, firms can implement labour-augmenting technology. To arrest the decline in labour's share might require improvements and changes in labour's skill levels that would complement capital. For instance, what labour skills are needed to complement the increasing use of IT and related technology?

Lastly, with the advent of large, aggressive and global returns-oriented investment institutions that focus on short-term (quarterly) profits, firms face more pressure to produce higher profits.

Probably the most difficult question to resolve from an ideological point of

view is the question of what constitutes a *socially fair* rate of return on capital that nevertheless compensates owners of capital for the risk that they bear. Likewise, the question remains as to what constitutes *fair* remuneration for work that was done.

What complicates these questions is that finding and implementing the answers is not just an intellectual exercise, but, as Rodrik shows, is tied up with existing national and global institutional arrangements that define the bargaining power of both labour and capital. A resolution would depend on a broader public debate and, indeed, a sufficient public consensus on the contents of society's social contract. At present, that contract seems incomplete – but whether the national and global institutions will allow for the completion of the social contract remains to be seen.

NOTES

1. The full article, "Wages, productivity, and labour's declining income share in post-apartheid South Africa", with figures and references is available online at www.essa.org.za or <http://www.standpunte.co.za>.
2. While GDP calculates national income from the expenditure side of the economy, GVA calculates national income from the production side of the economy. Gross value added (GVA) plus net taxes on production and product equals gross domestic product (GDP). Thus, GVA is equivalent to GDP excluding net taxes on production and products.
3. The analysis was done for the public and private corporate sectors, thus excluding agriculture and general government. It also excludes the manufacturing sector, due to its peculiar nature. The period analysed is from the third quarter of 1996 (after the approval of new labour legislation in 1995) to the fourth quarter of 2013. 

The author is head of the department of economics at the University of the Free State.

A NEW AGENDA FOR THE SOUTH AFRICAN COUNCIL OF CHURCHES (SACC)

Bishop Malusi Mpumlwana, SACC Acting General-Secretary

Most people know about the SACC from its prominent role in the struggle against apartheid, with leaders such as general-secretaries Archbishop Desmond Tutu, Beyers Naude, Frank Chikane and Brigalia Bam. Even though the council has not been very active in the public space over the last few years, the legacy of these committed leaders means that the SACC continues to enjoy a high profile in our country.

A PLACE OF REFUGE AND HOPE

Prior to the advent of our fledgling democracy, at the worst times the SACC became the “voice of the people”, initiating and supporting a number of programmes around the country. The SACC:

- Supported the international Programme to Combat Racism led by the World Council of Churches;
- Offered emergency services to victims of apartheid brutalities;
- Raised funds for the legal defence of victims of the system;
- Cared for families of detainees and political prisoners and on death row;
- Offered bursaries for poor black children – numbering in thousands – to become professionals in the future South Africa;
- Funded community development programmes and projects;
- Campaigned for comprehensive international sanctions against apartheid;
- Facilitated the establishment of developmental institutions, such as the Kagiso Trust, to mitigate the impact of sanctions on their intended



- beneficiaries. The Kagiso Trust is today a major partner in SACC's renewal for a sustainable ministry to the people of South Africa;
- Engaged in youth development programmes and women's rights and development, including the Women's Decade Programme, which culminated in the Beijing Platform now under review 20 years on;
- Supported exiles through its partners internationally and facilitated their return after the unbanning of the liberation movements and release of political prisoners; and
- Assisted in the transitional processes from the negotiations to peacemaking in the midst of intensified violence-destabilising negotiations; participated in the making of a new constitution for the country; supported in establishing the TRC; and advocated for a just

social and economic order and the sustainability of creation.

Every leader who has been a political prisoner has much to celebrate about the SACC. Many professionals today, who were helped by the SACC to make it against the odds, have much to celebrate. Those whose houses were petrol bombed remember the way in which the SACC came to their rescue. Those who were displaced, and those who were in hiding and had to be kept in safe houses and fed cannot forget the SACC. Those who were forcefully removed from their land will remember the SACC and its partners (like the Black Sash) standing with them against bulldozers that came to destroy their houses.

CHARTING A NEW DIRECTION

Given this extraordinary history and legacy, many rightfully ask the question: what happened to the SACC's vibrant

public ministry? It has been said that the collective voice of the church is virtually absent in the life of our new democracy, which is sailing on stormy seas, with enormous challenges of poverty, unemployment, inequality, corruption and crass political careerism for personal benefit in the face of routine service-delivery protests across the country. It has been suggested that the church has retreated to the sanctuary; has abandoned its prophetic ministry; has become insensitive to the glaring sufferings of people; has buried its head in the sand so as to “see no evil, hear no evil and speak no evil”.

This suggestion is not necessarily correct. Yes, the voice of the SACC has not been as loud as many would have liked. But the organisation too had to undergo its own transformation in the context of the new democracy, to find its footing and craft a new role for itself.

The good news is that the SACC is now in renewal. The 2014 National Conference elected a new National Executive Committee, and committed to the renewal resolve of the previous executive.

It is led by the Presiding Bishop of the Methodist Church, Bishop Zipho Siwa, with former General Secretary Rev Frank Chikane as Senior Vice President, and Fr Michael Lapsley, of the Institute for Healing Memories, as Second Vice President. The Executive has enlisted through a request to the Ethiopian Episcopal Church and its Diocese of Maropeng, the services of Bishop Malusi Mpumlwana to act as general secretary to help drive the new agenda to renew the SACC.

The renewal is a restoration of the sense of ownership and presence of member churches in the life and ministry of the SACC; a re-establishment of the mission of the SACC; and its re-anchoring in the homes and communities of the poor in the name of God, to whom they offer up prayers nightly for the dawn of the fullness of their earthly lives as citizens of a just and equitable society without poverty, unemployment, inequity and self-serving corruption.

WHAT DRIVES THE SACC?

The SACC is an ecumenical association of Christian churches, open to any church to join it. Churches with a national footprint join at national level, and those with a provincial or localised presence participate at that level. It includes all denominations: Roman Catholic; Protestant; Evangelical and Pentecostal; and African indigenous churches. It guards its independent nature, functioning and pronouncing on society independently of political structures, but maintaining an appropriately non-partisan relationship with organs of the state.

The Council is driven by the values of the mission of God in Christ, who became human that we may be more divine and less evil in our relationships. Christ came to preach good news to the poor, to heal the brokenhearted, to proclaim liberty to the imprisoned, to restore sight to the blind and to free the oppressed (Luke 4:18). Therefore, SACC exists to lead common Christian action working for moral witness, addressing issues of social and economic justice, national reconciliation, integrity of creation, eradication of poverty, and contributing towards empowerment of all who are spiritually, socially and economically marginalised.

We assert that the primary mission of the Church of Jesus Christ remains to witness to the love of God manifest in the Christ Event. The democratic dispensation notwithstanding, the Church of Christ remains duty bound to stand for this.

CHARTING A NEW WAY

In the spirit of that mandate, the SACC is now being strengthened through various initiatives:

- Current constitutional changes created the National Church Leaders Forum, a governance and accountability structure – viewing the SACC as a company with heads of member churches representing the shareholders, who are South African Christians.
- Revitalising the provincial structures and offices. The regular ministrations of the SACC are supported at community levels by the provinces.

- Responding to the changed funding environment – due to the decline in overseas funding – through ongoing, homegrown income-generation mechanisms for the SACC sustainability.
- Implementing the agreed upon Rolling Church Action for Social Change, enabling the church to mobilise and sustain a change agenda on critical matters that cry out for attention.

The Rolling Church Action is to be informed by:

- Burning community concerns;
- Credible research; and
- Rigorous spiritual and theological reflection, for an ongoing public engagement by the church on issues that matter most for society.

This year, the focus will be on poverty, gathering the efforts and models applied by communities to overcome the ravages of poverty and food insecurity, in this year of the culmination of the Millennium Development Goals. We have to promote a standard of public values that will create a society of which we can be proud of – a transformative public ministry.

This is what the Church has to do for an effective public ministry in South Africa. It requires, not a divided voice, but a united, ecumenical witness addressing the sources of pain and perplexity in our society through healing action.

To achieve this, the church in South Africa needs to learn to pray together more, and our leaders must engage the habit of listening together to God in silence, in prayer and in healthy discussion of their discernment, as they together seek to lead the faithful to imitate and represent Christ in South African society.



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RESERVE BANK: KEEPING AN EAR TO THE GROUND

An interview with Gill Marcus (Part 2)

This is the second part of an extensive interview Gill Marcus gave Ben Turok one month before she finished her term as governor of the South African Reserve Bank. The first part appeared in our previous issue (No. 56, 4:2014). Here, Marcus discusses the Bank's extensive engagement with internal and external stakeholders, and how monetary policy can (and cannot) respond to unemployment in South Africa

AN EYE ON THE BANKS

Ben Turok: What is the relationship between the Reserve Bank and the banking sector? When I interviewed central bank deputy-governors in Sweden and Mexico, I had the impression that it was a very close little group of people who met quite often. One said they had dinner parties...

Gill Marcus: No, we don't have dinner parties. [laughter]

BT: When you interact with the CEO of a private bank, is it a lobby meeting or a consultation or what?

GM: There is a range of interactions. A formal relationship exists in the sense that the Bank, as the Registrar of Banks, is the regulator and supervisor of the banking sector. There are also interactions relating to the various functions we perform, for instance, with the financial markets. There are also more informal relationships, and I regularly meet individually with the CEOs to exchange views.

I think the point that you're driving at is extremely important for any central bank: to be vigilant about not becoming a "captured regulator". I have no doubt we are not captured, and that would be the furthest from their thoughts. They would not try it, certainly not as things stand.



We can't ask about the role of the Bank as if it is the only role player and has the tools and ability to address all the issues that face our economy. We need to have a coherence of policy from all role players.

But you can't second-guess the detailed operations and functioning of the big banks. They have forty or fifty thousand employees, working across borders, numerous branches, global partners, etc. No matter how well you want to supervise, you can't match that strength and depth in the detail. So you have to look at the key issues and ratios. What is the frame that we create and what tools do we have to get that effect?

We have a bank supervisor, with a department of about 140 people.

Their job is to look at the banks on a range of issues. Capital adequacy, for example. The global norm before the crisis for capital adequacy was about 4.5 percent of risk-weighted credit exposures. We had about 9 percent. That's what the revised global requirements are now. Capital matters. Ask why our banking system is so sound? We insisted on much higher capital. Global banks can be very highly leveraged, but we have a limit. So we set the parameters in keeping with international standards and our own assessment of the banking environment.

We indicate to banks that they can't be leveraged beyond this, that this is what we expect from liquidity, and this is the ratio we want on your non-performing loans. The cost-to-income ratio is closely monitored.

But we do not run the banks. What we monitor is not the detail of the banking, but the parameters within which you try to create a sound environment. For instance, we expressed our concern about unsecured lending, which was growing at 30 percent per annum. The bank supervision department engaged with bank executives and boards about the matter, and today unsecured lending by the big banks is hardly on the agenda anymore. Its growth is now in negative territory. This has other consequences for financial inclusion.



Gill Marcus

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But we do not run the banks. What we monitor is not the detail of the banking, but the parameters within which you try to create a sound environment.

This is what we have created in terms of our concerns about sound banking. Our total capital adequacy in 2014 was 14.87 percent. Tier 1 capital was 12 percent. That is very high.

BT: And you can enforce that?

GM: Absolutely. We have the means in the law to impose penalties. If we think that you are not complying, we can add a 25-basis-point addition to what you are required to hold, which is a huge cost.

That is one relationship, the supervisory relationship with banks. We also have regular on-site meetings. We had our banking crisis in early 2000, if you remember, and we changed quite a few things after that. For instance, you can't appoint a CEO or CFO or a board member without our approval. And we can remove you. We are one of the few countries

that can do that. This in itself creates an obligation and risk for the supervisors.

BT: You can remove the CEO of a bank?

GM: Once they are in, it is harder, but we can say no to the appointment. And if there were real concerns about a CEO or senior executive, the route to address that would be through engagement with the board.

BT: That makes you very powerful.

GM: It does, and it makes you – whether governor, deputy governor or registrar of banks – very responsible. There is a lot of work that goes into that. You can never guarantee it, but you can try to see that this person is ethical and has the requisite skills. The person has to fill out a huge form and if they lie on it, then it's a criminal offence.

We learned our lesson when one of our banks got into difficulty in the early 2000s. They were behaving very badly and we could not get the CEO to step down. I was the deputy governor responsible for bank supervision at the time. We said, "You have to step down. That CEO has to go." There was one member of the board – I won't mention his name, but he was very good – who said, "Guys, you don't know what you are doing. You are going to have personal liability from here, so step down." We said that we would need to ensure we had appropriate powers so as not to be in such a position again.

BT: What is the purpose of the repo rate?

GM: We artificially create a money market shortage every day so that the banks have to come to the Bank for liquidity. And that liquidity supplied to them is at the repo rate. ➤



BT: They buy currency from you?

GM: They borrow from us, but the degree of dependency these days is very small because they get most of their funding from elsewhere. And that is another element: you have another whole interaction with the financial-market segment of the banking sector, which deals with trading, investment banking, and all of that.

Then you have a third level. The bank supervision department reports to a deputy governor, who interacts with the

banking sector as the person responsible for bank supervision. My interaction as governor is primarily with CEOs or board chairs. That is more informal, but it is not lobbying. They may try, but it is not the issue.

The question I would ask them in such engagements is: what are you seeing? The big four banks have roughly 20–25 percent of the different segments of the market. If you want to know what is happening in agriculture, you will pick it up far more quickly – before any

data comes out – when they see what is happening with lending: who is not paying, whether there is financing for tractors, etc. So that can form some of the discussions: this is what we are seeing from this policy, this is where financing is going, this is our concern. You get an insight into the real economy from speaking to them.

But above all, from my point of view, it is the ability to have a CEO or board chair sit opposite you and get a sense of who they are. Because then we begin to know each other, whether you can be relied on. Should an issue of any kind arise, you know each other, and you do not only meet when there is a problem to be addressed or resolved.

BT: This is psychology.

GM: As a governor, I feel the need to know who is who in the zoo, not only in the banking and financial sector, but more broadly in the economy, the trade unions and so on. And they know that they can call me anytime, day or night, if there is any problem. Their first port of call is the registrar, but if the issue is big enough, they have got to tell me. So we will be alerted to anything that is happening – a systems problem, or something that may have happened in a foreign branch, wherever that may be. They tell us so we will know about the matter, what steps have been taken to address it, and we don't first learn about it from media reports.

BT: This seems to me a very unusual system.

GM: Most regulators and central bank governors, as far as I am aware, try to do similarly. We are certainly not unique. A lot depends on personalities, so having the right counterparts helps. This isn't about lobbying. This isn't about saying what the banking sector wants from the central bank – don't raise interest rates, or whatever. I have never had that from any bank. Not in my previous position of deputy governor and not now. But the interaction on a regular basis, unrelated

to monetary policy decisions or other events, enables me to get greater insights into the challenges that banks are facing, and what they are doing about them.

EXTERNAL ENGAGEMENT

BT: Are you influenced by investors, foreign or local?

GM: Of course you're influenced by the way they see things, but again, we don't just follow what they say.

Five years ago, the Bank started a very structured external engagement programme. For instance, we meet with local analysts and economists six or seven times a year. Each meeting lasts three or four hours with about 50 or 60 people around the table. We meet with political parties, unions, myriad organisations. In sectors such as mining or manufacturing, we'll meet with organised business and organised labour.

BT: You do a presentation ...?

GM: We usually ask them to do a presentation or to lead the discussion and tell us how they see their sector or industry, whatever they think the issues or trends are, as well as what they would like to hear about from us. And similarly with the economists. We engage with them on a wide range of issues. We're not there to lecture to them. We've taken a position not to make presentations unless they ask us. If we only talk to ourselves, we could run the risk of group-think. You want to talk to other people, to see what they see.

The discussion that's coming next is probably on water – what's happening, and the challenges of water. We'll get presenters to come for the first two hours. The second half would be about how we see things at the moment in the economy. Everyone would give their views and their expectations in a very robust discussion. It helps us. You are getting different insights into the real economy from a range of economists from the private sector and state-owned enterprises.

BT: Do you pass this information on to the Treasury?

GM: We invite them to come and they do attend. They also have their own engagement programme.



We meet with local analysts and economists six or seven times a year. We meet with political parties, unions, myriad organisations. In sectors such as mining or manufacturing, we'll meet with organised business and organised labour.

BT: You're getting enormous feedback. Who benefits from it apart from yourselves?

GM: It benefits our engagements at a bilateral level. We try to feed that in. We invite them to come to any of our meetings. And obviously, if the Bank's team is strengthened through such interactions, then the output of the Bank, which is available to the public, is consistently of a high quality, and that is in everyone's interests.

BT: But it doesn't feed into government as a whole.

GM: Different departments participate in the various engagements. We annually meet the CEOs of the JSE top-40 companies. Last year, we attended with teams from the Bank and the National

Treasury, led by Minister Pravin Gordhan, and Minister [Nhlanhla] Nene now.

There is a meeting next week in New York, organised by the JSE with the Bank and with the Treasury, where we go to meet investors. We try to meet before that, to ask CEOs to come and discuss how we see the country, what we want to say, what our challenges are to attract investors. So that is another whole layer of meetings. Then we meet the investors – and this not only a one-to-one. There can be 10 or 20 people around the table, each representing a different investment house. It's me, the deputy governors, two advisors – seven of us – who run that. We can meet together or separately.

This is our job. We make the time to do it, with all the other things that we do. So if you ask, "do investors influence you?", of course they do – in the sense that hearing their concerns help us to form our opinions. But we do not blindly follow what they say. In any case, they often differ in their views from each other, and they have different interests. There is a note kept from every meeting listing the questions, issues and their key concerns.

MAKING MONETARY POLICY

GM: When we take a decision on monetary policy, all of this comes together. We have an almost daily discussion about what is happening with the numbers. Between us, we try to ensure that there is a common base of assessment – not a common understanding or interpretation, but we have common knowledge.

When we come to a MPC [monetary policy committee] meeting, we take three days. On day one, we have about 50 people on average. They rotate a little bit so there is inclusion. We take the people who are working on the presentations, young people, middle skill, top skill, people from the financial markets department, from the research department, bank supervision – to get people engaged in the ideas. That first day goes through a whole range of things. What is happening with the >>

global economy, with global markets, the domestic economy and domestic markets, bank supervision, and the real economy? The real economy takes a huge amount of our time. We go through those details thoroughly.

The second day has a reduced number of people. We then look at our modelling and our forecasts and at different scenarios. How do certain variables impact on the real economy? What are the expectations for inflation or growth or investment? Then we have the third element, which is still a broader group than the monetary policy committee, but small, which, having all of this before us, considers how we see the outlook, not only for inflation, but for other factors as well, such as growth and employment. What do we think the situation will be 18 to 24 months ahead? And then the third day has only the members of the monetary policy committee, and that is where the decision is taken.

We try to have a challenging environment in which to have the discussion. I am very keen that no one should come in to the final meeting with a fixed position. You must listen to what other people are saying. You must be able to change your mind. One of the reasons why we don't have published minutes is to allow this frank exchange. If you have published minutes, then you have who-said-what and a commitment and a pre-commitment – and then you don't have listening.

In the meeting of the MPC, we are all equal. There is no casting vote of a governor, no special position. A governor can't tell you, "This is my theory and your decision should be in keeping with my view." There are seven members and each one gives a view and the majority view prevails. A governor can be outvoted if the view of the majority is different. It is a very intense process and, I think, unbelievably thorough. Everybody feels comfortable saying what they think needs to happen. There can be three for a raise and four against and there is no animosity, no agro.

PROBLEM POLICIES

BT: South African financial institutions are said to be so strong. Why is that expertise not in other areas of the economy?

GM: I think it is. I don't think there is lack of expertise. Our mining expertise is brilliant, although mining is battling at the moment for different reasons. The motor manufacturers will tell you that South African motor vehicle manufacturing is on par with that of Germany. There's a whole range of areas in science and technology that South Africa is highly proficient in. We have superb skills in medicine, cutting edge in many ways. Our accounting and legal professions are highly regarded.

BT: So why do we complain all the time about skills?

GM: We don't have enough skills, but that doesn't mean that we don't have the competence. I think we don't draw sufficiently on the skills that we have.

How do we broaden the skill base? We've got a number of challenges because we want transformation, quite rightly, and we don't have a broad enough education base – particularly in maths and science – to give us the output that we want. Just take economics; you can't do economics today without maths and stats. The number of people who are black or female, especially black females, going into the economics profession is very small.

If you ask why skills are so strong in the financial sector, it's because that's where the money is. If you look around the world today, the focus has moved from the real economy into the financial sector. Is that bad? Not necessarily, but the one should not be at the expense of the other, and South Africa has a crying need to grow and develop the real economy.

Take the current situation in Europe. One of the challenges a central bank has, at this point in time, is that the money it keeps creating and putting

into the system goes out to the banks and back into the central bank. It doesn't touch the real economy. You are trying to get things started and you can't get it into the real economy. Part of the challenge is that the real economy itself is changing. Not necessarily for the better. Look at the role of agriculture in this country, which used to have a much higher percentage of GDP. Is it something we ought to be focusing on? Absolutely.



The cost of money is not the main problem. We could kill this economy in one fell swoop if there was a dogmatic approach that only took account of inflation.

BT: Pravin Gordhan always said that a good project will find the money.

GM: If you turn to Eskom today and say, "This is our energy requirement over the next five to seven years; you need to expand by this amount in coal and power stations." If you commit to purchasing the energy that is created, the money is likely to be there tomorrow – but there may also be tariff increases, as has been the case.

BT: Really? Domestic or borrowed?

GM: Of course you're going to borrow it. But it's there, because there's a return if an energy supplier guarantees that it will purchase the energy produced from that power station.

BT: So why don't they do it?

GM: Ask them. What is absolutely clear is that the lack of sustainable, reliable

and affordable energy is costing the economy dearly, and will continue to do so for some time to come. China builds a power station a year. And now it is said that there is likely to be another three years of no energy? How are we going to get growth? You can't. We simply cannot take this long to build and deliver on key projects.

WHAT MONETARY POLICY CAN'T DO

BT: I think our economy is in serious trouble.

GM: I don't think it is fully understood just how serious it is.

BT: What is your gut reaction as governor to the unemployment statistics?

GM: They are horrendous.

BT: What do you do?

GM: The question is: what can monetary policy do for employment? We can impact on cyclical employment, but not on the underlying structural employment.

BT: Joseph Stiglitz, Dani Rodrik and some others argue against being too harsh about reducing inflation because that creates austerity.

GM: Absolutely. But are we being harsh?

BT: Well, you tell me.

GM: No. Real interest rates are negative. The cost of money is not the main problem. We could kill this economy in one fell swoop if there was a dogmatic approach that only took account of inflation. Take the five years that I have been governor. The policy interest rate has come down from double digits to the lowest it has been in 30 years. Even with our increases of 50 basis points and 25 basis points earlier this year, it is still the lowest in 30 years. The real policy interest rate at the moment is negative. We are very sensitive to the cyclical impact of our policies on employment, which is part of our flexible inflation targeting approach.

BT: So you are saying that the economy is not suffering because of that.

GM: I don't think so. What would help with unemployment? First of all, jobs.

BT: Jobs are created by money.

GM: Jobs are created by investment and growth. Our problem is not simply a lack of access to affordable finance. Why is gross fixed capital formation (GFCF) in the last quarter negative – minus 2.5 percent – from the private sector?

BT: Government also.

GM: No, government investment is positive.

BT: Not much.

GM: Don't forget the weighting in it is roughly two-thirds: 65 percent private sector, 35 percent government. So even if government is positive, it is the private sector investment that is critical to raise the overall GFCF. And it should be the private sector creating jobs, not the government.

BT: We know why the private sector is not investing.

GM: Why?

BT: It is political.

GM: No, I really don't agree with you. I think there may be an element of that, and I think that we are our own worst enemy in a lot of this. The public discourse in this country – from all players – is something that is decidedly uncomfortable. You want to beneficiate? The one thing you are going to need for beneficiation is energy. From current statements it does not look like we are going to have sustainable and affordable energy in the next five years.

BT: There are ways of getting energy if you are desperate. Look at Billiton – they manufacture their own energy.

GM: They've also closed down their plants. Look at Richards Bay. There is a comprehensive problem to resolve. Some companies may be able to make

energy themselves – but for an average company? If you want to put your money in, you want to know you'll have sustainable, affordable and reliable energy. Housing is regarded as one of the key issues we face, but houses need electricity. Who is going to invest in anything that requires energy until we have certainty of energy supply? The central bank can do nothing about that, absolutely nothing.



Who is going to invest in anything that requires energy until we have certainty of energy supply? The central bank can do nothing about that, absolutely nothing.

Talk about skills. I've already said I think that we have huge skills and expertise, but not in sufficient quantities. But what are we doing on immigration? If you can explain the current immigration policy to me, I would love to hear it.

I will give you an example, in the Bank, right now. We had brought in skills. Because of the mathematics that is required for our modelling, we really need expertise from other central banks. We have a very good team, about 20 to 30 people, but we brought in this really top-class person from Canada. He was declared a "prohibited immigrant" (PI). We can't get him back for a year.

We can't ask about the role of the Bank as if it is the only role player and has the tools and ability to address all the issues that face our economy. We need to >>

have a coherence of policy from all role players. Take for example the statement – and I don't know the standing of this – that 50 percent of land will now go to the farmworker.

We all recognise how critical and emotional the land issue is, given the extensive dispossession that occurred. But which 50 percent? Do you halve the water? Do you halve the house and outbuildings? Who is defined as the farmworker? Do you know that it is being reported that there is already slowing of lending to farmers? Farmers are already reportedly stopping payment on capital goods because they don't know if they are going to have their farm or not. If I owe money on my tractor, do I stop paying? And if I want to finance my next crop: is it a long-term crop or a short-term crop? Because I don't know what is going to happen.

What is already happening, if you look at the numbers, is that farmworkers are being driven off the land again, which happened with the Security of Tenure Act. There are huge consequences to conditions of uncertainty.

So when you ask what we need to do, our central question – and I have said this frequently – is that you have to have co-ordination and coherence of policy that understands the real economy and can drive the transformation that is required. To me, the real question about inflation is: who does it hit the hardest? It hits the person who is not working, or on a fixed low income, because their price of bread changes, their cost of transport and basic requirements rises and impacts disproportionately. So high inflation really matters.

BT: While other people can afford it.

GM: If you are in a higher income bracket, you can better afford it. Food and transport tends to be a smaller percentage of your living costs. The lower the income, the higher the inflationary costs, because that portion

of your expenditure basket is different. This is the difference. We talk about “inflation” and “the cost of living”. Inflation isn't differentiated but your cost of living is different. Whether it is the cost of food, electricity prices or fuel or transport or e-tolls, it hits the cost of living at the low end. That is of real concern to us, but it is not our province.



If I owe money on my tractor, do I stop paying? And if I want to finance my next crop: is it a long-term crop or a short-term crop? Because I don't know what is going to happen... Farmworkers are being driven off the land again, which happened with the Security of Tenure Act. There are huge consequences to conditions of uncertainty.

So some commentators say that you can have high inflation. Who is it going to hit and to what end? Will it make a difference? The advanced economies are trying to get some inflation because they can then float away some of their debt – but don't forget that they are coming off a very, very low base. They are trying to get to 2 percent because the challenge in Europe is deflation.

INTERNATIONAL ENGAGEMENTS

BT: How do you relate to the international banking community?

GM: The South African Reserve Bank has a significant relationship with the international community. It is not only with the international private-sector banks, many of which have a presence in South Africa, but with the central banks at a range of levels. I think it is probably one of the best, most useful aspects of the role of governor.

We split our international engagements between all of us. The IMF and World Bank and G20 are largely the responsibility of one deputy governor. The Financial Stability Board is largely another deputy governor. Some of the seminars are attended by a third deputy governor. The OECD [the Organisation for Economic Co-operation and Development] will be a particular person in the bank. My area is the Basel Committee and the Financial Stability Board (FSB). I serve on the steering committee of the FSB and Lesetja [Kganyago, SARB deputy governor and governor-elect at the time of the interview] serves on the plenary.¹

Let's start with local. First of all, the Common Monetary Area (CMA) [which includes South Africa, Lesotho, Namibia and Swaziland]. The four CMA governors meet three or four times a year. We try to meet before the Monetary Policy Committee meeting, so that we can see what is happening in our CMA countries. We will have a presentation on the economic outlook from each country and we look to see what is impacting. Obviously, our impact will be much bigger on the other three countries. And then we have a presentation at the MPC regarding what is happening in the CMA. Not every meeting, but at three or four out of the six.

That is the first engagement; the second is SADC [the Southern African Development Community]. South Africa chairs the SADC central bank

governors' meetings, known as the Committee for Central Bank Governors (CCBG). There are 15 countries and we meet two or three times a year, plus a strategy session. We look at the issues per country and as they affect the region as a whole. We have well established working groups on financial markets, banking sector regulation, economic convergence, targets in terms of debt-to-GDP ratios, deficits, etc.

BT: Do you talk about corruption?

GM: We do. But again, it tends not to be an issue simply for the central banks, but country issues. Our challenge is the central banks' ability to meet with the ministers of finance to ensure a coherent regional approach.

BT: Why?

GM: Central bank governors play different roles in different countries and their ability to influence economic policy varies. Some of them are advisors, some sit on economic policy committees, or even in the cabinet. We are trying to get a sense of a regional approach. As SADC, we have advised the African Union that we do not agree with a single [continental] central bank and a single currency at this stage. It is supposed to happen in two years' time. We need to learn the lessons of the crisis in Europe: other things should be done first, such as trade and fiscal matters.

BT: The bank comes after the trade?

GM: It must. First you develop the ability for trade interactions and regional growth, and then you look at what the monetary arrangements should be. Not the other way around. The biggest problem in Europe is that they don't have fiscal co-ordination, only monetary. Each country does its own fiscal policy, but you have a common monetary policy. So you can do nothing about your currency, but you don't deal with the fiscal decisions, with what needs to be done. It is back-to-front.

Then we have the Association of African Central Banks, in which we also participate. We meet once a year. So that is the continental level.

BT: The ECA [United Nations Economic Commission for Africa] claims that one of the reasons for 6 percent growth in Africa is that monetary and banking systems have been much improved across the continent. Is that true?

GM: I think it is true, but there is also much greater stability and interaction and I think that has mattered as well.

Then you have the G20, which has a range of meetings that include central bank governors and deputy governors, looking at questions of economic growth and global financial challenges and developments. Our big issues there are co-ordination and taking account of the views of emerging markets and what emerging markets need. We are the only country from the African continent in the G20.

We are not that involved with the World Bank, mainly the IMF. There again, it's a question of keeping in touch with and contributing to the issues. There are very often side meetings, so for example, you will have a side meeting of the BRICS at the G20 or IMF meetings. Then there is the BRICS, in which we are active.

BT: Do you support the new BRICS Bank?

GM: South Africa does. I think it will take time to get to critical mass, but it is a welcome and important initiative that also demonstrates the joint commitment of the five countries.

BT: It will release some resources, surely?

GM: It should. That process is run by the Treasury. The contingency reserve arrangement (CRA) is a central bank agreement that creates the means to access some reserves if needed. I think that is very helpful. But that's central-bank driven, so when the Treasury and the Bank go to Washington now, they

will have a side meeting on the CRA. It allows for us to have a very good interaction between the governors of the countries.

Then you come to the BIS [Bank for International Settlements], which is really my area. It has a range of functions and working groups, and we participate as much as possible. Our view is that they have not always taken sufficient account of impacts on emerging markets. We have succeeded in putting a range of issues on the agenda in this regard.

We also ensure that our teams of staff get exposure to this wide array of meetings. The BIS meets every two months and you might have six or eight meetings over the two days. It's very, very demanding. I think they are absolutely invaluable meetings. They prepare very good documentation and it is a frank discussion of the people around the table.

BT: You produce a lot of research, especially on the real economy. Can't we get access to that?

GM: We are trying to do more, both for internal development and as a means of communication. We do publish some of our research on the web, but part of the challenge is that you can't just publish – it has to be fit for publication. It has to be peer reviewed, it has to be critiqued, it has to be at a certain level. We are moving in that direction.

NOTE

1. The Financial Stability Board (FSB) is an international body created by the G20 in 2009 to identify problems in the global financial system and oversee action to address them. The Basel Committee on Banking Supervision (BCBS) is an international forum for banking supervision, which is located at the Bank for International Settlements (BIS) in Basel, Switzerland. The BIS is an international organisation of central banks. 

THE LABOUR RELATIONS AMENDMENT ACT AND THE IMPLICATIONS FOR SA WORKERS

Walter Theledi, South African Municipal Workers' Union (SAMWU) General-Secretary



Walter Theledi, SAMWU General-Secretary.

South African trade unions have played a major role in the shaping, and the ultimate attainment of the democratic state. It is through the unions' robust engagements with the democratic state that we have forged pro-worker policies, such as Affirmative Action, the Basic Conditions of Employment Act (BCEA), and the Labour Relations Act (LRA). These are some of the achievements that South Africans should celebrate, especially in the year that has been declared "The Year of the Freedom

Charter", the one document that brought the alliance together and continues to be the bonding catalyst of the alliance. However, neoliberalism has launched a massive onslaught against the country's labour policies.

On January 1 this year, the Labour Relations Amendment Act (LRAA) came into effect, after President Jacob Zuma had approved the amendments to the LRA last year. To this day, only a handful of workers know about the amendments and their implications. One could even go

so far as to suggest that the amendments themselves were brought in through the backdoor, while organised labour and trade unions were disorganised and in a state of limbo.

In justifying the LRA amendments, Presidential Spokesperson Mac Maharaj was quoted as saying that "the labour legislation gave effect to fundamental Constitutional rights, including the right to fair labour practices, to engage in collective bargaining, and the right to equality and protection from unfair discrimination." All pro-worker trade unions would obviously celebrate any legislation as described by Maharaj; however, there are issues which have been parachuted and disguised in the amendments.

We firstly have to appreciate the intervention of the state in what seems to be an attempt to tame capitalism. We, however, know that capitalism cannot be tamed and that it thrives on the agony of the poor working class. Capitalism is exploitative in nature and seeks to maximise profits at all costs. For long, workers have been subjected to working conditions that are not conducive for their development, and some have been casual workers for over a decade, leading to a new phenomenon in labour – permanent casuals.

We are not surprised when liberal unions, such as Solidarity, argue that the amendments would result in increased unemployment in the country. Given the membership of Solidarity, we are convinced that such unions are happy when South African workers are trapped

in the vicious circle of exploitation, which has led to the emergence of the poor working class. To begin with, such unions do not organise or consider the interests of the poor working class, yet they have the audacity to claim to speak on their behalf.

We should indeed applaud the LRAA for its attempt to curb the exploitative practice of permanent casuals. The amendments compel employers to, after three months of service, convert the employment of such an employee to permanent. We believe this is a step in the right direction, in ensuring that such practices are curbed.

These amendments are only applicable to those who earn an annual salary of less than R205 000. The majority of those who are continually exploited fall within this salary bracket. The amendments further make it clear that, should an employer fail to convert the status of these employees after three months, or should the employee's contract be terminated after three months, this will constitute unfair dismissal and the employee is given full power to refer the matter to the Commission for Conciliation, Mediation and Arbitration (CCMA).

Prior to the amendments, the CCMA could only conciliate unfair discrimination cases if the parties agree to arbitration. The amendments will also limit the use of consultants as representatives in CCMA cases. This is a victory for workers, who have long been subjected to a situation where employers would use lawyers to dismiss workers. The CCMA has also been given more powers; their orders will have the same powers as those of the courts. We believe that these amendments will encourage workers to refer matters to the CCMA. The ball is now in the court of trade unions to make workers aware of their rights, to ensure this institution functions efficiently for the betterment of South African workers.

Employers are further restricted from employing workers on a fixed-term contract that exceeds three months. It should, however, be noted that this amendment does not apply to interns, seasonal workers, workers who are replacing other

workers while they are unavailable for the duration of the contract, and workers employed through Extended Public Works Programmes (EPWPs). We are concerned that this may lead to a situation where employers would, in an attempt to avoid employing workers permanently, recycle employees on a monthly basis.

“

The amendments compel employers to, after three months of service, convert the employment of such an employee to permanent. We believe this is a step in the right direction, in ensuring that such practices are curbed.

Albeit our lukewarm reception of the LRAA, we believe that the amendments themselves are selective, as they do not address issues that South African municipal workers face. South African municipalities continue to employ contract workers, thus exploiting them through the outsourcing of municipal services, and more saddening, employing people through EPWPs. The plight of these EPWP workers is worsened either by the fact that they do not benefit from the labour law provisions, or from bargaining council agreements as confirmed by the amendments. Such employees are further exploited and receive as little as R50 a day for rendering their services, with no tangible benefits or job security. Government's excuse is that the lower

wages are justified, because an EPWP job is not a real job, but rather an initiative which seeks to prepare the poor people for a better future. This is not convincing.

We are of the view that the amendments should have included EPWP workers. The EPWP workers, like other workers in the local government sector, contribute to the service delivery and therefore, what they are doing is a real job, which deserves to be paid a living wage. There is no difference between the types of jobs that are performed by the EPWP workers and their counterparts employed full-time by the municipalities.

We hope that through further engagements, these amendments would be extended to EPWP workers, as this would ensure that they too benefit from the gains of democracy through decent employment. We further hope that the Department of Labour would put in place stringent measures ensuring the implementation and compliance with the amendments. The Department of Labour should further ensure that harsh penalties are imposed on employers who disregard the implementations. Such employers would be gambling with the livelihoods of workers; a database of such employees should also be created so that they could be named and shamed.



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REDISTRIBUTION PROMOTES GROWTH

By Andrew Donaldson

This article was published online by Econ3x3, on 7 October 2014, and discusses the interaction of redistribution and growth in a South African context.



Andrew Donaldson is the deputy director-general in the national treasury.

A recent International Monetary Fund (IMF) study of several countries provides robust evidence that a high level of income inequality weakens the prospects of sustained economic growth and reduces the duration of growth spells. Redistributive steps, by contrast, do not have a noticeable negative effect on growth. Therefore, a reduction in inequality that is achieved through redistributive steps could have a net pro-growth effect. The policy challenge for South Africa is to find the best policy mix to achieve that.

INTRODUCTION

In recent decades, the agenda for global development has focused strongly on poverty reduction associated with growth – as articulated in the World Bank's 2001 *World Development Report: Attacking Poverty*, for example. In emerging market economies, gains in industrialisation, urbanisation and employment have substantially reduced absolute poverty and contributed to a global convergence in average incomes and some rebalancing of economic power. A decline in poverty has also occurred in South Africa since 1993 (Finn et al. 2013).

But convergence between countries has been accompanied by rising inequality within many advanced and developing countries. Whereas inequality was portrayed as a transition feature of the path towards growth and development in the past, it now appears

to be more deeply entrenched. In South Africa, inequality has deteriorated since the early 1990s, despite the substantial growth of GDP – with the Gini coefficient rising from 0.68 in 1991 to 0.72 in 2006, before it declined somewhat to approximately 0.70 after that. Income gains appear to have been concentrated at the top end of the distribution of income since 1993 (Visagie 2013).

Rising inequality has raised questions about the social and political sustainability of the dominant policy paradigm. In some analyses it is identified as a factor that contributes to the financial fragility and economic imbalances exposed by the 2008 recession and its aftermath (Stiglitz 2012).

The evidence that inequality has increased in many countries – and that it has increased particularly in the top percentiles of the distribution – has brought a new intensity to “distributional economics” as a research topic. Internationally, the debate on inequality has been given impetus by the 2013 publication of Thomas Piketty’s *Capital in the Twenty-First Century*. Where the subject seemed almost taboo 25 years ago, inequality and the effectiveness of redistributive policy and programmes are now at the forefront of academic and policy discourses.

It has been known for at least the past two decades that inequality may weaken the prospects of rapid and sustained economic growth (e.g. Persson and Tabellini 1994). This is an awkward finding for countries like South Africa, where the level of inequality is very high. It is sometimes argued that growth is the primary policy imperative since a high-growth path makes the reduction of poverty and inequality possible (Bhagwati and Panagariya 2013). However, if inequality holds growth back, then highly unequal societies may get caught in a development trap in which neither rapid growth nor the reduction of inequality can be achieved. Accordingly,

a key question is whether inequality-reducing policies hinder or support the growth process – in other words, whether or not there is a trade-off between promoting growth and pursuing equity.



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THE INTERACTION OF INEQUALITY AND GROWTH

It is important to understand the channels through which inequality and growth interact, and what mechanisms of redistribution are available and effective. A recent IMF staff paper provides interesting perspectives on the growth-and-inequality question.

Ostry, Berg and Tsangarides (2014) use the “standardised world income inequality” cross-country dataset to examine the links between growth, inequality and redistribution, using data from 153 developed and developing countries. Their findings confirm that lower inequality is correlated with faster growth in all countries.

Moreover, a lower level of inequality contributes to more durable growth –

growth episodes are likely to be longer if inequality in a country is lower.

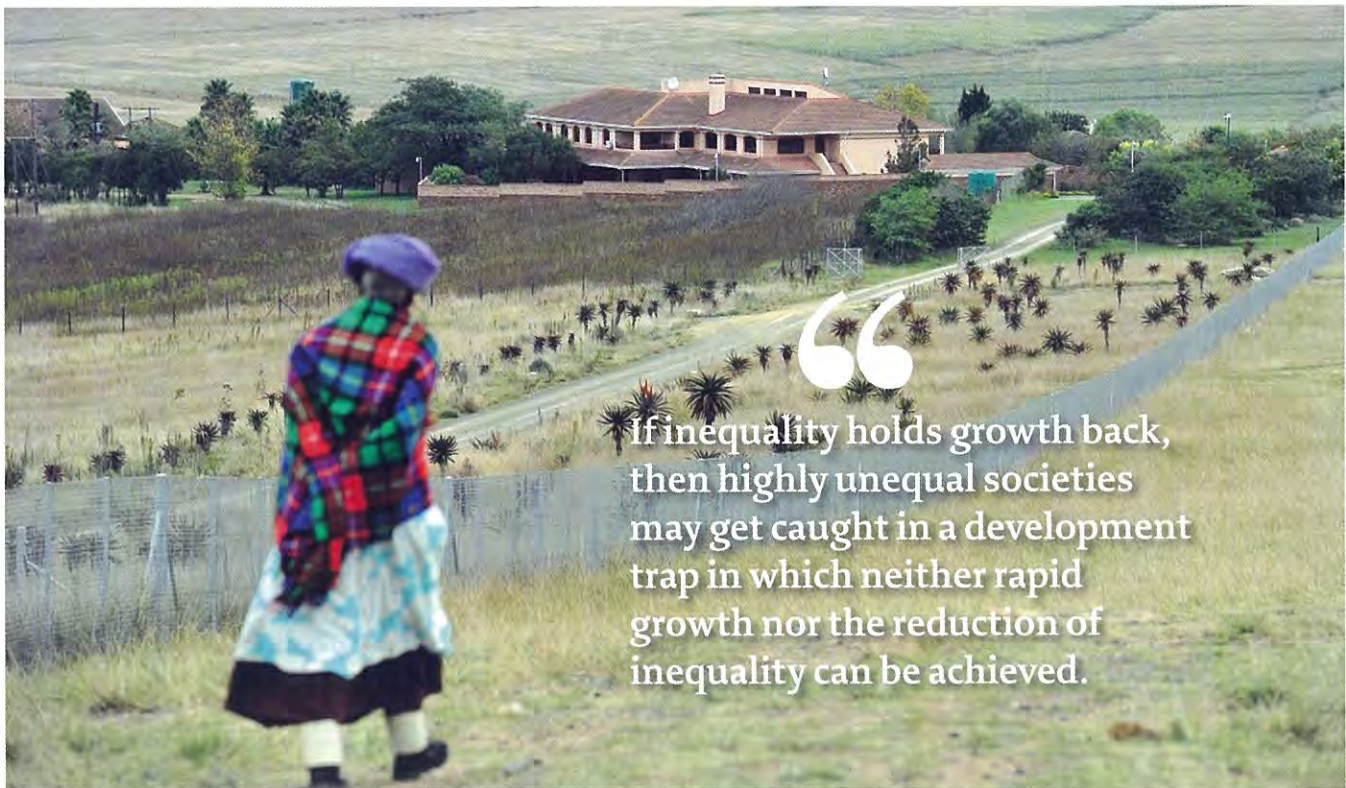
The IMF study also finds that more unequal societies tend to redistribute more than less unequal societies. This leads to the important question of whether the redistributive interventions of unequal societies contribute to their tendency to grow more slowly – or whether it is the underlying inequality itself that constrains growth.

The analysis indicates that *redistribution appears generally benign in terms of its impact on growth; only in extreme cases is there some evidence that it may have direct negative effects on growth*. Thus the combined direct and indirect effects of redistribution – including the growth effects of the resulting lower inequality – are on average pro-growth” (Ostry et al. 2014, 4; italics original).

The international dataset provides time-series measures for each country of its “market distribution” (i.e. its income distribution before direct taxes and transfers) and its “net distribution” (i.e. the distribution of disposable income or expenditure of individuals or households after paying taxes and receiving transfers such as social grants). These enable the researchers to compare the inequality of monetary income *before and after* direct taxes and subsidies. (Therefore, specific redistributive policy steps and the provision of in-kind services, such as education, health, housing and welfare services, are not part of this redistribution calculus.)

The extent of redistribution that occurs in a country can then be measured as the difference between the Gini co-efficients of the market and net distributions respectively.

In the developed OECD countries, the median *market-distribution* Gini – which has increased somewhat over the past 30 years – is currently about 0.45. The median *net-distribution* Gini is about 0.30, indicating extensive redistribution, mainly through social security transfers and progressive tax structures. Amongst non-OECD ➤



“If inequality holds growth back, then highly unequal societies may get caught in a development trap in which neither rapid growth nor the reduction of inequality can be achieved.”

countries, the median market-distribution Gini now is also about 0.45, having declined since the 1970s. However, in many non-OECD countries, net inequality is quite close to market inequality, mainly because social security arrangements are limited.

South Africa, with an approximate net Gini coefficient of about 0.70, is in a league of its own. The high inequality appears to be mainly due to high levels of unemployment, which result in an unusually high level of inequality with regard to labour market earnings. The redistribution impact in South Africa appears to be approximately six Gini points, as indicated in the dataset used by Ostry et al.

LIKELY IMPACT OF INEQUALITY ON GROWTH

The authors of the IMF report explicitly distinguish the effects of inequality and redistribution on growth. In their statistical estimation of the effect of net inequality and the extent of existing redistribution on the growth rate of per

capita GDP, they find the following:

- first, *higher inequality appears to have a statistically significant negative impact on growth*. Using the USA as an illustration, an increase in the net Gini coefficient of 5 points from its current value of 0.37 (to 0.42) would be expected to reduce the medium-term growth rate of per capita GDP by 0.5 percent per annum
- second, redistribution has a tiny negative but statistically insignificant – all-but-zero – effect on growth. These findings imply that “the average result across the sample is a win-win situation, in which redistribution has an overall pro-growth effect” – counting both the potential negative direct effects of redistributive steps and the growth-enhancing effects of the resulting lower inequality (Ostry et al. 2014:17). They cast doubt on the notion that there is a trade-off between reducing inequality and economic growth – or that growth should be pursued first, followed by redistribution of its “fruits”.

With respect to the duration of growth, Ostry et al. find that higher inequality decreases the length of growth spells: a one Gini-point increase in net inequality is associated with a decrease of about 7 percent in the expected length of growth spells (2014:23). And redistribution as such has no noticeable effect on the duration of growth spells, except in extreme cases when very large redistributive steps are undertaken. (These would be, for example, attempts to reduce the Gini coefficient relatively rapidly by 13 points or more.)

Importantly, the analysis shows that the overall pro-growth effect does not result from the redistribution itself: it is due to the lower inequality achieved (in part through redistributive measures).

As with any multi-country analysis, there are several difficulties with these measures, based as they are on incomplete and sometimes inconsistent data series, and there is considerable complexity in the linkages and relationships under examination.

For example:

- there are many possible channels through which redistribution might influence growth, either positively or negatively
- the Gini coefficient may not be the most suitable measure of inequality for policy purposes, and there are likely to be at least some feedback effects of tax and transfer programmes on market distributions
- in-kind redistributive programmes may be more important than monetary instruments
- moreover, an analysis at this level of aggregation does not provide information about the top 5 percent or 1 percent of the distribution of income, which is where much of the rise in incomes in many countries has been seen in recent decades.

Whilst recognising such difficulties, the IMF paper's authors conclude that:

(Income) inequality continues to be a robust and powerful determinant both of the pace of medium-term growth and of the duration of growth spells, even controlling for the size of redistributive transfers ... It would ... be a mistake to focus on growth and let inequality take care of itself, not only because inequality may be ethically undesirable but also because the resulting growth may be low and unsustainable ... [T] here is surprisingly little evidence for the growth-destroying effects of fiscal redistribution at a macroeconomic level ... On average, across countries and over time, the things that governments have typically done to redistribute do not seem to have led to bad growth outcomes, unless they were extreme. And the resulting narrowing of inequality helped support faster and more durable growth, apart from ethical, political, or broader social considerations. (Ostry et al. 2014: 25-6)

NO TRADEOFF? POLICY IMPLICATIONS

These results suggest that economists' conventional belief in a "big tradeoff"

(Okun 1975) between efficiency and equity is misguided. (The existence of such a tradeoff would mean that more equity through redistribution could only be had at the expense of a reduced economic growth rate.)



Using data from 153 countries, their findings confirm that lower inequality is correlated with faster growth in all countries. Moreover, a lower level of inequality contributes to more durable growth – growth episodes are likely to be longer if inequality in a country is lower.

In any case, there are many strands of public-finance and development economics that support redistributive policies as growth-enhancing: investment in human capital, risk reduction through social security arrangements, land reform, or the promotion of small business development, for example.

Even Okun's analysis suggests many ways in which redistributive social investment might be growth- and productivity-enhancing. The implications of these findings for South Africa are potentially important. It is not just that inequality is unusually high in South Africa, or that there is a compelling need to find a policy mix that yields both faster growth and redistribution.

The analysis suggests that redistribution should be thought of as itself part of the

toolkit for promoting faster growth, and not just a desirable outcome to be sought through an inclusive or redistributive growth path.

The policy challenge is not to find the right tradeoff between growth and redistribution, but to identify and design the specific policies and interventions that support inclusive, faster growth – in the context of a country's economic structure, its labour market features and institutional dynamics. If inequality is high, some of these measures are likely to be redistributive. In the sequencing of structural reforms to support enduring, inclusive growth, redistributive measures might warrant early prioritisation. In exploring these policy choices, evidence on specific policies and their effectiveness in local circumstances needs to be sought.

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The author is the deputy director-general in the national treasury.

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SHOCKING INEQUALITY IN SOUTH AFRICA

Cause for concern

South Africa is the most unequal society on the globe. Opulence exists alongside poverty; decadence is but a stone's throw from deprivation. The *Sunday Times* Rich List (7 December 2014) highlighted the widening income and wealth gap in South Africa. There is simply no justification for such disparity.

There is a growing literature supporting the notion that inequality has a negative relationship to growth and prosperity. In South Africa, where the rate of return on capital and executive pay continues to outstrip the growth rate by a large margin, squeezing the middle class and lower classes, policymakers need to develop and implement appropriate legislative instruments and policy frameworks to close the income and wealth gap.

Outside of purely economic terms, inequality is also a moral and socio-political issue. The proper functioning of our democratic institutions depends on the creation of an inclusive growth path that ensures equitable participation in our economy. Instead of entertaining sterile and useless conspicuous consumption, policymakers need to ensure that our economy works to provide for basic needs first.

New Agenda expresses its concern at the statistics released in the Rich List, and believes that tackling inequality should be a government priority.

The following are excerpts from the *Sunday Times* article.

The editor.

WEALTH AND INCOME OF THE RICH

The country's 10 richest people have a combined wealth of R205 billion, an 81.4 percent increase on the R113 billion they held in March last year. This occurred in a year when GDP growth was expected to be 1.5 percent.

The top 10 executives in South Africa collectively took home R625 million last year. On average, the top 10 salary packages have increased 74.8 percent from 2012.

Ivan Glasenberg, the South African-born boss of Swiss-based mining company Glencore, has a fortune worth R61.3 billion as of November 2014.

Anglo American CEO Mark Cuitifani is South Africa's highest paid executive. His cheque of R106.8 million included a salary of R17.3 million, benefits of R46.7 million, a performance bonus of R18.6 million, and share gains of R19.3 million.

CEO SALARIES UNAFFECTED BY MINING STRIKES

Last year, strikes bought the mining industry to a standstill as the Association of Mineworkers and Construction Union (AMCU) demanded a minimum wage for mineworkers of R12 500 a month.

The Rich List shows that 31 of 214 South African CEOs earned more than 100 times that coveted R12 500 monthly salary.

ESKOM EQUATION: NO POWER = HIGH SALARIES

Eskom lavished R52 million on 11 individuals last year, with five of the top 11 best-paid parastatal bosses coming from the embattled power company.

Brian Dames, former CEO, took home R8.5 million and former finance chief Paul Flaherty and former customer service head Erica Johnson took home R5.9 million each.

THE CURSE OF CONSPICUOUS CONSUMPTION

The *nouveaux riches* spend their wealth on "label heavy" fashion and accessories and luxury cars; South Africa is now Porsche's biggest market in its Middle East and Africa region. The most popular way of showing off, however, is to "buy" tables at South Africa's top clubs in Johannesburg and Cape Town, where the cost of one bottle of alcohol can exceed R10 000. The most expensive bottle in South Africa is Remy Martin's deluxe Louis XIII Rare Cask 42.6 Cognac at R300 000 a bottle. [INA](#)

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RACISM IN THE WORKPLACE

Based on an internal survey, the Black Management Forum (BMF) expresses concern at the increase in racist incidents in the workplace. This statement was issued by BMF managing director Themba Dlamini on 27 January 2015.

The BMF conducted a survey of its members to gauge their experiences of racism in the workplace. The results were mixed. On one hand, we found that most working environments are conscious of racism and have created structures to deal with this searing challenge. However, the survey also found that 47 percent of respondents have personally experienced racism at work. Also disturbing was the finding that 50 percent of respondents do not believe that black managers are given the same opportunities as people of other race groups. Another study, also done by BMF Young Professionals, found that the conversion rate of young black professionals from graduate to senior management is far lower than those of other races. The conversion rates were 36 percent for whites, 34 percent for coloured, 51 percent for Indians, and only 17 percent for Africans. The study concluded that entrenched white prejudice is largely responsible for this.

Fifty-one percent of the respondents indicated that their companies provide a conducive environment for reporting and dealing with racism. What the study found more telling, though, was the issue of speaking against racism. There is an even split between those who believe they will be victimised for

speaking against racism and those who believe they have not been victimised. This demonstrates an uneasiness to deal with racism in the workplace – despite a range of instruments created to do so.



Recent incidents of racism reported in the media further indicate that racism is far from something relegated to our past: it is alive and black people continue to be its victims.

When 50 percent respondents say they do not believe black managers are given the same opportunities as other people of other race groups, and 47 percent state that they have personally experienced racism, this should be a wake-up call to all who believe in an egalitarian and non-racial society.

Recent incidents of racism reported in the media further indicate that racism is far from something relegated to our past: it is alive and black people continue to be its victims. Research done by the Institute of Justice and Reconciliation in 2014, which found that a majority of white South Africans do not believe that apartheid was a crime against humanity, as well as the increasing frustrations within the black community when racism seems to be on the increase are causes for concern.

In a country where more than 90 percent of the population is black, we should strive towards zero tolerance of racism. For 47 percent of respondents to say that they have personally experienced racism at work is simply not acceptable. The struggle for freedom and justice in South Africa was simultaneously a fight against racism. Since 1994, many policy and legislative tools have been specifically developed and implemented to address this intractable problem.

The BMF acknowledges that some progress has been made to entrench transformation in corporate South Africa, and that instruments have been created to deal with racism in the workplace. However, this survey tells us that we should continue to be vigilant of racism at home, at work and in the broader society. **NA**

PUBLIC SERVICE COMMISSION

CUSTODIAN OF GOOD GOVERNANCE



INTRODUCTION

The Public Service Commission (PSC) is an independent institution, established in terms of Chapter 10 of the Constitution. It derives its mandate from Sections 195 and 196 of the Constitution (1996), which sets out the values and principles governing public administration that should be promoted by the PSC, as well as the powers and functions of the PSC. The PSC is required by the Constitution to exercise its powers and to perform its functions without fear, favour or prejudice.

The PSC is vested with custodial oversight responsibilities for the public service, and monitors, evaluates and investigates public administration practices. The PSC is accountable to the National Assembly and must annually report to the National Assembly and provincial legislatures in each province on its activities and performance.

CONTRIBUTION TOWARDS A DEVELOPMENTAL STATE

The PSC has a central role in shaping the kind of public administration and public service that will help South Africa achieve its developmental goals. In this regard, the PSC hosted a three-day high-level conference on the developmental state from 11 – 13 November 2014, under the theme: “**Building a Capable, Career and Professional Public Service to Underpin a Developmental State in South Africa**”. The outputs of this conference will help to generate debates on the nature and

characteristics of public service that should underpin a developmental state in South Africa.

The PSC published a strategic framework with proposals for consideration. The PSC makes proposals about measures, which will ensure that only the best are recruited into the public service. Proposals are also made to ensure employees are developed to their full potential throughout their careers, and that an ethos of devoted public service is inculcated.

The PSC also makes proposals for the career paths of public service employees. With more predictable and attractive career paths, the public service will be able to develop a pool of critical skills in the long run. The PSC will therefore pursue the adoption of these recommendations through engagement with the minister for Public Service and Administration, the Portfolio Committee for Performance Monitoring, the Public Service and Administration, as well as other key stakeholders.

GUIDE ON GOVERNANCE PRACTICE FOR EAs AND HoDs

Based on its body of work on public administration practices, the PSC has produced the **Guide on Governance Practice for EAs and HoDs**. This guide will serve as induction and orientation reference material for executive authorities (EAs) and heads of departments (HoDs) across public service. It will also provide an opportunity for political and

administrative heads in the public service to acquaint themselves with some of the core competencies that are generic in the execution of their duties.

It provides a wider understanding of their roles in ensuring governance within their departments, while at the same time, addressing the need for sound and conducive relationships between EAs and HoDs. Based on the body of work done by the PSC, specific emphasis is placed on the roles of EAs and HoDs; the implementation of the Financial Disclosure Framework; remunerative work outside the public service; the evaluation of HoDs and the importance of oversight reports to correct public administration deficiencies.

SERVING THE CITIZENRY BY ENSURING THAT NEEDS ARE MET, AND THE PUBLIC IS ENCOURAGED TO PARTICIPATE IN POLICY MAKING

Citizens remain the most important stakeholders of government. In order to promote public participation, the PSC, together with the Portfolio Committee on Public Service and Administration, developed the **Citizens’ Forum** tool to promote the incorporation of citizens’ views and perceptions of service delivery. The Citizens’ Forum has been found to be a useful and dynamic way of drawing ordinary people into the governance process, so that the concerns of grassroots communities can be better understood and addressed by official structures.

MAKING A DIFFERENCE IN THE FIGHT AGAINST CORRUPTION

The PSC is responsible for managing the National Anti-Corruption Hotline (NACH). The NACH is an important mechanism that government has implemented to combat maladministration and corruption in the public service. Since its inception in September 2004, to date the NACH has received **261 788** calls. Of these calls, the PSC has generated 21 397 reports for possible investigation. Out of the 21 397 reports, the PSC has referred 14 992 cases to national and provincial departments, as well as public entities, for investigation.

As a result of the PSC's intervention, there has been an increase in the recovery of money and the number of disciplinary sanctions taken against perpetrators. Between September 2004 and March 2014, a total of **3 439** officials were found guilty of misconduct related to corrupt activities. The following are the types of sanctions that were taken against the officials that were charged and found guilty of misconduct:

- 1 694 officials were dismissed from the public service;
- 438 officials were fined (e.g. not receiving a salary for three months);
- 63 officials were demoted;
- 913 officials were given final written warnings; and
- 331 officials were prosecuted.

The successful investigation of cases of alleged corruption reported through the NACH has resulted in the recovery of **R333 million** from perpetrators since the inception of the NACH.

MANAGEMENT OF THE FINANCIAL DISCLOSURE FRAMEWORK

The PSC is responsible for the implementation of the Financial Disclosure Framework. In terms of the framework, all senior managers in the public service have to disclose their financial interests on an annual basis. Such disclosures promote both transparency and accountability, in order

to detect and prevent real conflicts of interest. The PSC has made a concerted effort to ensure that senior managers submit their financial disclosure forms timeously, through advertising reminders to the media.

Due to 2014 being an election year, the due dates for the submission of financial disclosure forms for the 2013/14 financial year were extended by the Minister for Public Service and Administration. An electronic disclosure system (e-Disclosure) was introduced, and senior managers were encouraged to submit their financial disclosures either manually or through e-Disclosure.

There was a slight improvement in the overall compliance rate by the due date of 31 July 2014. The compliance rate was **85%** (77% from national and 97% from provincial departments), compared to 84% in the previous financial year. The PSC has commenced with the scrutiny of the submitted financial disclosure forms, in order to identify potential and actual conflicts of interest. The scrutiny focuses on, among others, the declaration of directorships and partnerships in companies, as well as ownership of properties. Cases of non-compliance with the framework and the identified cases of potential conflicts of interests have been referred to the responsible executive authorities (EAs) for appropriate action.

KEY PLANS AND UPCOMING PROGRAMMES AND PROJECTS

The PSC conducted inspections during January 2015 with regard to the availability of textbooks in schools. This is informed by the previous challenges experienced by the Department of Basic Education in relation to the timely delivery of textbooks to schools in all provinces of the country.

Similarly, the PSC hosted a successful Citizens' Forum in the Thembisile Hani and Lekwa Local Municipalities in the Mpumalanga province in February 2015. During the Citizens' Forums, institutions independent of the executive participated with citizens in proposing practical

measures to improve service delivery and contribute towards the consolidation of government's people-centred developmental programme.

In an effort to contribute towards the professionalisation of the public service, the PSC will conduct research in the areas of human resource management, including an assessment of orientation and induction practices, and its impact on productivity and performance, and the application of the competency framework in the recruitment and selection of senior managers in the Public Service.

To contribute towards sound labour relations and employee productivity in the Public Service, the PSC will review the rules for managing grievances, and publish a labour bulletin that aims to assist departments in the effective management of grievances. A study will also be conducted on the management of precautionary suspensions and acting appointments.

CONCLUSION

Through its body of work, the PSC will continue to influence policy in the public service. The PSC will also provide effective technical oversight over the public service at national and provincial tiers of government.



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SOME FACTS CONCERNING CHINESE LABOUR

By Alexander List

Delving into what makes Chinese labour different to South African labour.

Sometimes, if you are lucky, the world gives you a chance to touch it changing. In September, in a factory in the city of Changsha, I had such a chance. The factory assembles trains, and on its finishing line was a set destined for a new subway line in Malaysia, one whose builders I had interviewed only a few months earlier. Running a hand over the cold metal of the train was like feeling the world After the West.

Another change was also prefigured in that factory. It was light and airy, tidy and well managed. Workers moved around with autonomy, working together smoothly. Bosses barking orders were conspicuous by their absence, as were drones on an assembly line. I asked a supervisor about the workers' wages. On average, they made R160 000 per year; the highest, R240 000. Those wages were, by explicit company policy, rising at 15 percent per year. This was some distance from low-cost labour. That factory is not an exception. Wages across China have risen by an average 15 percent for all of the last decade. If, as South African managers protest, rising labour costs decrease competitiveness and increase unemployment, China's exports should have plummeted and it should have an unemployment crisis. Neither has occurred.



This essay will probe this phenomenon, its causes, and its relevance for South Africa. The first section will present the data to substantiate the claim above. The second will probe why wages are rising so fast, and why employment and competitiveness are being maintained regardless. The third will consider the implications for ourselves.

RISING WAGES, RISING EXPORTS, RISING EMPLOYMENT

According to official data, in 2004, the average annual wage across China was 16 000 renminbi (RMB). By early 2014, that had risen to RMB51 000. Over the same period, the renminbi rose from 8.3 to the dollar to 6.1, while the South African rand dropped from 6.5 to 11. In rand terms, the average of wages across China rose from roughly R13 000 per year to roughly R90 000, or around R7 500 per month.

This is official data, so it is likely an overstatement that excludes informal, very low-wage employment. But there is no reason to think that the overstatement would be higher today than ten years ago. If anything, it will be smaller, since data

quality in China has improved greatly, and migrant labour in particular is now much better tracked.

Moreover, the data tally with observations across the country. In Shanghai, labour has become so expensive that even KFC has been forced to automate, introducing touch-screen ordering earlier this year. Construction workers with some experience now earn RMB10 000 (R18 000) per month. The rises are not confined to the rich coastal cities. In Changsha, in the historically poor province of Hunan, the rapid increases were not restricted to the train factory. In the plant of a multinational auto company, I was told that interns from vocational colleges were now given RMB1 500 (R2 700) per month, which is what a full worker would have been paid a decade ago. Everyone, from makers of construction machinery to auto companies, said much the same.

The figures also align squarely with policy measures. Ten years ago, the wealthy coastal provinces began raising the official minimum wage, at rates of 15–20 percent per year. A few years ago, the inland provinces followed suit.

The minimum wage in Guangdong, the “workshop of the world”, is now RMB1 808 per month (R3 250), having been raised by 19 percent last year.

Though South Africa's Reserve Bank has castigated workers for seeking such wage rises, across the decade inflation in China has barely risen. The consumer price index rose a mere 3 percent per year on average. The producer price index *declined*, even with soaring raw material prices as well.

China's exports have also grown rapidly throughout this period. In constant dollars, in 2004 they were USD680 billion per year, tripling to USD1.921 billion in 2013. Its exports to South Africa rose from USD3 billion to USD16.8 billion, or almost six times over, despite its wages now equalling or even surpassing ours. If wage costs were what made our firms uncompetitive, they should have regained market share. They seem to have done no such thing.

It is true that China's global share in some low-value products has, at last, begun to decline. But those declines are almost insignificant. In 2012, China's share of global garment exports remained at 38 percent, almost eight times higher than any other country. It declined in 2014, by a whole 0.1 percent (in the US). At this rate, China will indeed lose its market leadership sometime in the 25th century. It has certainly lost no competitiveness versus South African textile producers. Our imports just of footwear and apparel grew 3.5 times, from USD0.8 billion to USD2.7 billion.

There has also been no discernible decline in employment. China's official unemployment rate is one of its most untrustworthy pieces of data but, except at the peak of the global crisis in 2008, there have been few to no reports about joblessness. No one I have spoken to or read in China recently has reported anything other than a strong jobs market.

In fact, labour activism is rising rapidly across China. Since the workforce has stopped growing due to the “one child” policy, but employment remains high, Chinese workers have realised their own strength. Strikes and labour action have

soared. In 2014, there were roughly a hundred strikes per month across China, double the rate of 2013. In September, a major electronics factory faced a strike when it skimped on giving its workers a moon cake for the Mid-Autumn Festival (roughly equivalent to eggs at Easter). A docile and predictable workforce this is not – nor, given that Chinese firms can fire at will, one scared of losing work.

So wages in China are rising rapidly, strike action is intensifying, and yet inflation is low, exports are rising and unemployment is low. But, during wage negotiations, South Africa's employers, echoed by our media, confidently state that such a world is simply impossible. According to them, a living wage, rising rapidly, must mean declining market share, rising prices, and rising unemployment. One-fifth of humanity, for a full decade, has achieved the opposite. How?

HOW AND WHY

Some may argue it is “work ethic” or “subsidies”. Neither excuse stands up to scrutiny.

Take work ethic. Set aside the ignorant prejudice and, purely for the sake of argument, accept that “the Chinese” work harder than “the South Africans”. For this to account for the facts above, this work ethic must have been increasing as fast as wages. If it weren't, the amount of work ethic bought for a rand would be dropping at double digits per year, and exports and unemployment would suffer. In other words, the argument only makes sense if the Chinese today work *four times* harder than the Chinese did ten years ago. If anyone intends to maintain such an absurd claim, one might merely point out that this would require adding a dozen hours to the ordinary human day.

The rebuttal of subsidies is much the same, although it at least has some factual merit as far as levels are concerned. The Chinese government provides greater subsidies than our own, or most others. But the argument breaks down on *trends*.

Subsidies can only account for the facts above if they are growing as fast as wages.

Neither data nor observation provides evidence of such growth. Free land was available ten years ago, and is no more available today. Capital was cheap, and is no cheaper. Tax rates have been stable, with some rotation among industries. Indeed, once its range of levies and compulsory social security payments are taken into account, China is said by some to have a tax burden second only to France. Electricity and water prices have changed. They have increased rapidly. Ten years ago, the average price of power across China was roughly R0.30 per kWh. Today it is approaching R1.25.

So we must seek causes among those aspects of the Chinese economy that have been changing at roughly the same pace as wages, and which would work to maintain employment and exports. Two changes fit the bill: domestic demand and productivity.

The first has exploded across the decade, rising on average by 16 percent per year. Much of that demand has been for investment, particularly in infrastructure and housing, with overall fixed-asset investment rising at over 20 percent per year over the last decade. However, consumption has also grown rapidly, at 14 percent per year. To give a few indicators: retail sales have grown as much as 18 percent per year; auto sales have exploded from 5 million to 23 million cars per year; and Apple now *sells* (not makes) almost as much in China as it does in all of western Europe.

Rapid wage increases have played a large role in this demand boom. The link to rising consumption is obvious, but rising wages have also supported investment. Though housing has recently become a speculative bubble, the boom in its early years was driven by rapidly increasing incomes as well as policies to unlock investment – rather than consumer – credit for low- to middle-income households. For example, many provinces and cities maintain “housing funds” that guarantee and subsidise mortgages for workers who earn too much to qualify for public housing but too little to easily ➤

obtain a mortgage themselves. The funds contain strict rules to ensure workers are not preyed upon with excessive loans. At its peak, Shanghai's fund was said to account for 1–2 percentage points of annual GDP growth.

Such a rapid rise in demand would likely have caused rampant inflation were it not for a simultaneous rise in productivity. Over the decade, labour productivity in China grew at around 10 percent per year, peaking above 12 percent. As above, this cannot be explained by “work ethic”, since it would require working harder. If anything, hours are dropping. Indeed, Chinese workers must be taking some time to do all that investing, consuming and organising. Two interlinked causes are at work. The first is investment in equipment. That has itself grown at 21 percent per year for ten years. Today's factories in China are unrecognisable from a decade ago. Halls of people manually moving things about have been replaced by great swathes of metal. The trend is not slowing; if anything, it is accelerating. Last year, China became the largest market for production robots in the world, growing by 60 percent per year. (As an aside, then, China also shows that automation is not only inevitable, it need not coincide with rising unemployment, as long as wages and demand rise with it.)

Second, Chinese firms have become continually better managed. Total factor productivity (TFP), which nets out the growth in capital stock to measure how well an economy is organised, has been rising at roughly 4 percent per year. At the top end of the scale, the decade has seen the rise of Chinese firms such as Huawei, Lenovo, Alibaba and Tencent to global prominence in the most demanding of industries. Outside of high-tech, a clutch of lesser known companies are challenging the West, Japan and Korea in high-end machinery. Sunward, a company started in Changsha a mere fifteen years ago, recently won a contract for the drilling machines used for the new subway in Singapore, which is hardly known to compromise on quality.

That word, “quality”, might sum up much of the difference between China and the low-cost economies that were supposed to take its jobs. In everything from textiles to printing, firms in Bangladesh, India, or South Africa struggle to match the quality levels and response times of those in China. A printing firm in Shenzhen will have a book in Durban before its competitor in Johannesburg will return a phone call, and will do it with fewer mistakes.

In other words, there are quality thresholds beyond which price competition is irrelevant. When combined with surging productivity, which at the least keeps a lid on prices, this allows Chinese firms to increase wages rapidly while increasing volumes.

Of course, both factors only beg further questions. First, why do Chinese firms invest so much? In part, because of the low cost of capital. But that in itself is a function of inflation staying low. The larger answer is predictability. Chinese firms do not have to fear wild swings in prices with a volatile exchange rate. Conversely, they can expect rapid growth in demand, both investment and consumption. Indeed, that seems their “default” expectation. As evidence, consider the widely used “purchasing manager indices” (PMI), compiled through surveys. In almost all countries, a “neutral” reading on the index indicates no growth in industrial input. In China it indicates growth of almost 10 percent, because Chinese firms consider anything lower a contraction.

Chinese firms know what they will pay for their equipment, without fearing that a currency movement between order and delivery will change it, and can count on increasing if not full utilisation of it. Subsidies then turn the obvious into the irresistible.

The sources of management quality are harder to discern. In part it may be the ferocity of competition. In China, not even the giant state-owned enterprises are monopolies (there is always more than one in any sector, and they fight each

other). In the private sector, the country is so vast that any manager will know that someone, somewhere, is out for them.

But for that vastness to count, new managers and new firms must be able to emerge from any stratum of society, including workers and the children of workers. Where that is not the case, as in India's highly stratified society, competition is throttled back. In China, assembly-line workers can and do rise within a few years to become production managers. Even if they do not, their children carry no marks, verbal or physical, of their parents' origins.

This requires an absence, or at least an overcoming, of social cleavage. That same overcoming of cleavage then translates into much more effective communication and trust between workers and management. Without such communication and collaboration, the tools of advanced management, such as “lean production” and “total quality management”, are next to impossible. Since implementation of those techniques is today a *de facto* pre-requisite for global competitiveness, so too are equity and trust between workers and management.

That introduces a final element, which is the need for continually rising skill levels in the workforce. To that end, China's vocational education system is simple, elegant and – not perfectly, but much better than most – it delivers. In broad strokes, it works as follows: whether started by a local government or a firm, it is extremely hard to start a vocational school. Once licensed, though, the government does not try to set curriculum or force cooperation with firms. Instead, it makes sure that everyone has simple, free access to data about the schools: employment rates, graduation marks and professional certification rates.

It then funds the schools on a strictly per-student basis. If they deliver skills that are not needed, their figures drop, students see that and go elsewhere, and their budgets disappear. The result is a feverish competition among a handful of schools in each city to make their courses

as job-relevant as possible, and to recruit as many trainees as they can. The market does the heavy lifting, but only because the government has intervened strategically to attack the lack of information between workers, schools and firms that scuppers most skills programmes.

IMPLICATIONS FOR SOUTH AFRICA

All of this raises a range of implications for us. First, it is past time to counter business's arguments about a living wage. When employers state, "We cannot afford to raise wages by 15 percent", the counter must be: "The Chinese can afford it, from a higher base than you. Why can't you do it too?" If the response is "work ethic" or "subsidies", then they must be presented with the facts and asked again, "Why can't you match them? Are you simply less competent than Chinese managers?"

At worst, employers will be exposed as arguing in bad faith. At best, the embarrassment may provoke them to investigate and provide what they believe are the real reasons why they have not been able to reclaim any market share from the Chinese.

Likewise, they must be asked their reasons for not investing. If they retreat to "labour uncertainty", the facts about Chinese strikes must be presented; if they say "red tape", China's position 50 places below South Africa in the "Doing Business" rankings must be presented. That is the principal use of comparative facts: to induce policy dialogue to grow up.

Further implications are more difficult. Obviously, we cannot simply replicate Chinese policies, but it would be equally blind to not suggest anything, on the grounds that we are "different". We are: that is why policy requires thought. Different ideas may then result from a common understanding of Chinese solutions, based on differing understandings of our experience and differing diagnoses of why we are not investing and why our management is sub-par.

On investment, one obvious implication is to reduce uncertainty, in particular by

taming exchange rate volatility. This is not about levels, but about predictability. Breaking our vicious cycle of portfolio inflows and volatility may not require a Chinese-style currency peg, but, at the least, it implies substantial reserve accumulation in periods of over-valuation.

A second idea could be an aggressive fiscal rebalancing to subsidise investment in equipment. The large, cumbersome national programmes for such incentives simply do not work. We might replace them by a simple rule, whereby, for example, firms that raised wages by 10 percent per year and raised investment to 30 percent of their earnings before interest and tax would receive a much lower tax rate, on the order of 15 percent. This could be funded through much higher consumption taxes on luxuries, especially luxury imports, and replace the failed wage subsidy.

That points to one of our central dilemmas: raising demand without exacerbating our consumer credit problems. So a third idea might be to supplement our top-down housing provision with new financial-market measures to enable low- to middle-income workers to build, renovate and upgrade their own homes. Housing can be the source of bubbles, but in a period of demographic boom it can easily absorb 10 percent or more of the labour force, not to mention catalysing demand for everything from cement and steel to appliances and services.

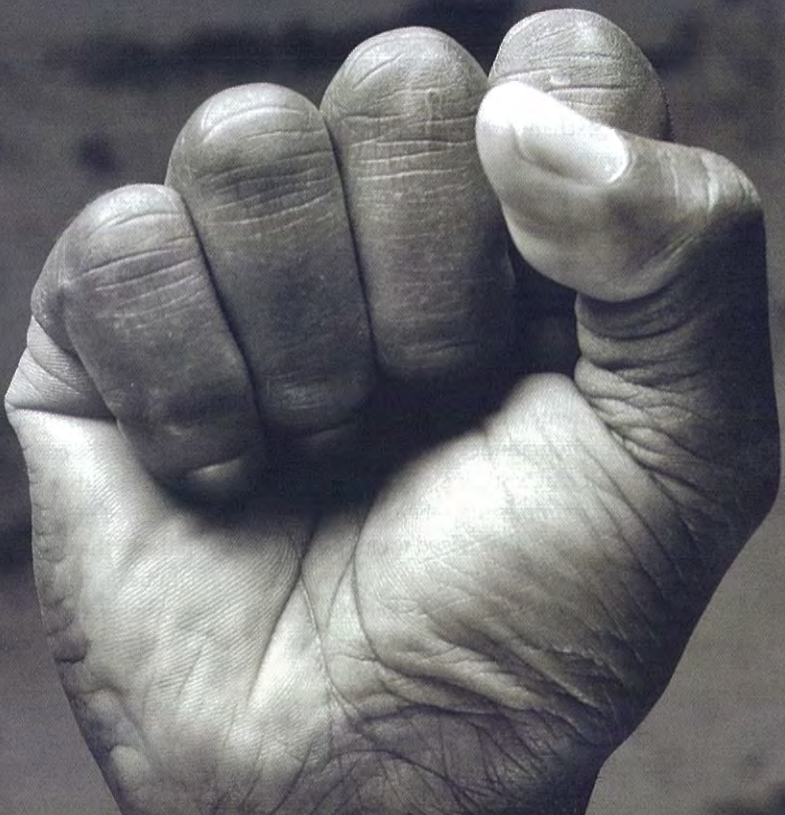
A fourth implication is to change our approach to skills. At present, employers who seek training for their staff, workers who seek new skills, and new entrants to the labour market all face a dismal choice between public institutions offering out-of-date curricula and fly-by-night private operators. Massive allocations for skills training disappear into sinkholes created by poor flows of information. Information costs little in money, and is the purest of public goods; on the other hand, it is much more managerially demanding, in both public and private sectors.

That leads to the most difficult factor: management quality and within-plant relations. It may be that, alongside a deliberately unskilled workforce, apartheid's most pernicious economic legacy is a managerial class so coddled that it is able to compete only when paying its workers less than a living wage. Likewise, it may be that the mechanisms chosen for black economic empowerment have resulted in the enculturation of new black managers with old habits, rather than a shake-up of management.

If this is the case, it is not clear what might be done. At the least, our firms need to be shaken out of their complacency by fiscal pressure, but even more by a gale wind of domestic competition. One means to do so is clearly to ramp up the Competition Commission. Another might be a much more aggressive scheme of capital grants for the children of low-income parents. A programme that gave every such child, once at 18 and once at 30, a lump sum of around R50 000 to start a firm or seek additional training, could cost as little as 2 percent of GDP.

The idea is also far from radical. In Europe, an identical scheme, with much larger grants, has been advocated by the former economic advisor to the president of the European Commission, a former Europe editor for the *Economist*. Similar policies are used, in various forms, in a range of social democracies. In Sweden, for example, anyone unemployed is entitled to a capital grant to start a business, alongside subsistence allowances to stay alive while doing so.

Many in our middle class may howl at such ideas. Their self-image is that of a persecuted minority, valiantly keeping the country going in spite of government and labour. The facts may have little impact on such entrenched worldviews. But such ideas would seem, if anything, less radical than some alternate routes to economic freedom that are gaining traction among the young. The question, then, is whether or not our middle class is as incapable of enlightened self-interest as it is of competing with the Chinese. ■



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SHARED BENEFITS IN THE AFRICAN MINING VISION

The African Mining Vision envisages a future where the continent's natural resources are used productively and sustainably to its benefit and that of its people. This is an excerpt from **Fatima Haram Acyl**'s speech to leaders of Africa's private-sector mining industry at the 2015 Mining Indaba in Cape Town on 9 February.

The African Union (AU) heads of state and government adopted the African Mining Vision (AMV) in 2009 to make the mining sector more responsive to African economic and social development needs. In 2013, the African Minerals Development Centre was established to provide strategic operational and co-ordination support to AU member states. The AMV envisages a future where the continent's natural resources are used productively and sustainably to its benefit and that of its people. It covers the need for downstream linkages into mineral beneficiation and manufacturing; upstream linkages into mining capital goods, consumables and services; linkages into infrastructure and skills and technology development; mutually beneficial partnerships between the state, the private sector, civil society, local communities and other stakeholders; and a comprehensive knowledge of its mineral endowment as well as improved governance.

Working together to implement the AMV is good business. Its implementation will produce concrete benefits for the private sector, including longer-term predictability and stability in an enabling socio-political and regulatory environment. Cost savings and competitiveness would result from workforce planning and local skills development, which helps businesses reduce the need for hiring from abroad. Similarly, the development of local linkages and supply chains will facilitate local production, thus improving business competitiveness and cost structures.

These are just a few examples that



Fatima Haram Acyl

illustrate the business imperative for the private sector to actively engage in a compact on implementing the AMV.

I'm sure you will agree that this engagement is neither about charity nor handouts. It responds to a clear need for the private sector to adapt to changing times as African governments assert their

resolve for our people to obtain a more equitable share of our mineral wealth. It is no longer a question of "if" or "when", but of how to best proceed in a manner that is mutually beneficial to us all. **NA**

The author is the commissioner for trade and industry in the African Union Commission.

SATAWU CHAMPIONING ON IN 2015



The South African Transport and Allied Workers Union (SATAWU) – the largest transport union in the Congress of South African Trade Unions (COSATU) – was formed in the year 2000, after a series of negotiations and smaller-scale mergers by unions in the transport industry. SATAWU organises workers in the transport sector, as well as in security and cleaning companies. These sectors include railways, harbours, parastatals, aviation, passenger transport (buses and taxis), freight (trucking),

contract, cleaning and security. The transport sector has been highlighted by government as a key contributor to South Africa's competitiveness in global markets. It is regarded as a crucial engine for economic growth and social development, and the government has unveiled plans to spend billions of rands to improve the country's roads, railways and ports.

Given the key role that the transport sector plays in South Africa's economy, and government initiatives to address some of the problems it faces, SATAWU

as the transport labour movement plays an important role in ensuring that its members are well represented, operating in decent working conditions, and not exploited, but shielded from the cruel nature of the capitalist system in which the global economy operates.

As an organisation that stands for interests of the majority – working class South Africans – SATAWU firmly aligns itself with one of its key objectives, which is **“to advance and defend the interests of workers in respect of all matters of mutual interest between workers and their employers, in order to improve the standard of living of the union's members, workers and the working class in general”**.

The importance and relevance of trade unions in today's age should not be de-emphasised, given the high levels of exploitation by employers against non-unionised employees. At a time when capitalism has become the order of the day, the necessity for workers to unite and form a single voice of power to fight against the triple challenges of poverty, unemployment and inequality facing most working class South Africans is greater.

Since its formation, SATAWU has and continues to:

- Stand as a united front, unapologetically speaking on behalf of its members, and workers in the transport sectors, providing its members with information, advice and guidance about work-related problems;
- Provide its members with a range of services, including training, insurance, financial services and legal advice/assistance;
- Bargain with employers to get better wages for its members, as well as continue to push forward the agenda of a national minimum wage for all workers; and
- Campaign on particular issues pertaining to discrimination and unfair treatment etc.

As a progressive union, our main aim is to firstly ensure that our current



The higher the Gini, the higher the level of inequality. According to World Bank tables, the Gini index in Brazil declined from 59.3 in 2001 to 52.7 in 2012. In South Africa, the index increased from 57.8 to 65.0 over a similar period (2000 to 2011), although there is some debate about these numbers.

DECLINING INEQUALITY IN LATIN AMERICA:

Policy Changes and Lessons

Reviewed by Anthony Black, School of Economics, University of Cape Town

Giovanni Andrea Cornia (ed)

Oxford University Press: Oxford, 2014. 370 pp

Extrême inequality is one of South Africa's most persistent afflictions. While there is some consensus that poverty rates have declined, partly due to the large-scale rollout of social grants, it is equally clear that there has been no significant decline in inequality. Over the past 20 years, South Africa has had reasonable economic growth rates and the issue of inequality has been near the top of government's agenda. So the burning question is: why has there been so little progress in addressing this fundamental problem?

Since the early 2000s, Latin America – another developing region with a history of deep inequality – has seen a significant reduction in inequality. This collection of studies is therefore of considerable interest to policymakers and researchers in South Africa.

Part I is a series of overview chapters, including two by editor Giovanni Andrea Cornia. The second part contains chapter case studies on Ecuador, Chile, Uruguay, Mexico, El Salvador and Honduras. These are countries with quite different economic conditions and also encompass a range of government ideologies. The chapters in Part III have crosscutting themes that assess the impact of macroeconomic, trade, labour market, education and social protection policy changes on income inequality.

Many Latin American countries have similar per capita income levels to South Africa's and also rely on resources. The underlying causes of inequality in Latin

America also resonate with the South African case. These include colonial histories and the concentration of land, assets and human capital. In Latin America in the 1980s and 1990s, policies of stabilisation and liberal reform had a regressive effect on income distribution. The share of labour fell and the share of capital rose sharply. Skill-biased technical change was one factor. Rising demand for skills coupled with limited supply led to rapidly growing incomes at the top end. Cornia also attributes increased inequality to liberalisation as a result of competition from low-cost imports and the immobility of production factors in declining sectors. Another outcome was a significant shift into the informal sector.

The Gini index, a commonly used measure of inequality, measures the degree to which the distribution of income deviates from a perfectly equal distribution. The higher the Gini, the higher the level of inequality. According to World Bank tables, the Gini index in Brazil declined from 59.3 in 2001 to 52.7 in 2012. In South Africa, the index increased from 57.8 to 65.0 over a similar period (2000 to 2011), although there is some debate about these numbers. While the case of Brazil has received much attention, it is less well known that inequality declined across the region over the period from 2002 to 2010, with the exceptions of Nicaragua and Costa Rica. The average Gini index among Latin American countries was 54.1 in 2002. By 2010, it had declined to 48.6. This represents a sharp



membership of 227 640 is well serviced and taken care of in their respective working environments. This will ultimately encourage the growth and development of the organisation (through membership progression), ensuring that SATAWU and the **“voice of the labour movement”** in general remains relevant and firm in South African workplaces and key decision-making platforms.

One of our biggest focuses in the years to come is to also grow the number of our youth membership in the organisation, so as to shape and groom a workforce that will be dynamic and sufficiently knowledgeable in the areas of socio-economic ideologies. Therefore, SATAWU calls for a massive youth mobilisation, who will in turn become leaders and champions of

this movement tomorrow. We strongly believe that any movement that invests its time in the youth is a developmental and progressive one.

SATAWU is indeed a revolutionary union, and the union of choice for many workers employed in the transport, contract cleaning and security sectors. SATAWU stays winning and continues to champion the fight for workers' rights at a policy framework level and at a broader socio-economic transformation level.

SATAWU cares for the lives of workers, who continue to be subjugated and oppressed by profit-driven employers.

Come and join us, and let us stand together to win this battle through the building, nurturing and strengthening of workforce unity in South Africa.

Togetherness is the bedrock upon which both the liberation movement and unions themselves are founded.

Viva SATAWU, viva!



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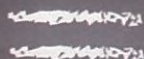
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break in the previous trend of rising inequality since the early 1980s.

According to Cornia, these trends cannot be explained by high growth or favourable external conditions. Growth was much lower than in Asia, for instance, and in any event, the growth of commodity-based sectors can have an unequalising effect on the pre-tax distribution of income because of the high concentration of mine and land ownership.

So what explains the decline in inequality? As usual, there is no silver bullet and a combination of factors has been important. A large part of the explanation is a reduction in labour market inequality resulting in part from a declining skill premium, which is itself a function of declining educational inequality due to large educational investments in many countries. Also, the demand for skilled workers grew relatively more slowly in the 2000s compared to the rapid increase in previous decades. It is also striking that in nearly all countries the urban-rural wage gap fell, a process helped by the adoption of more competitive exchange rates and rising prices for agricultural commodities. Rising levels of social assistance were a significant but lesser factor, according to Cornia.

As Roberts' chapter on the politics of inequality points out, inequality declined in countries of diverse ideological orientation, but the biggest declines were generally in those with more left-leaning governments. However, even more conservative governments felt the pressure to reform and improve redistributive outcomes, as in the case of Mexico or Colombia's health programmes. Left-oriented governments were more likely to introduce progressive taxation and transfer policies as well as minimum wages.

Like Latin America, South Africa has liberalised trade. In their chapter, Székely and Sámano-Robles argue that, while trade liberalisation during the 1980s and 1990s led to increased inequality,

this is not a permanent obstacle to improvements in income distribution. Once the economy has adjusted, other measures can be effective in reducing inequality. For instance, tariffs in Latin America have stabilised at quite low levels but, as we have noted, income distribution has improved substantially during since 2000.

The chapter by Cruces, Domench and Gasparini assesses the patterns of education inequality in Latin America and their links to income distribution. They find that the gap in years of education widened in all Latin American countries in the 1980s and 1990s. But from 2000 to 2010, it declined on average. Importantly, this has had a more equalising effect on the income distribution because of the increased relative demand for low-skilled labour – in contrast to the 1990s, when the demand for unskilled labour fell following market-oriented reforms, technological changes and weak labour policies. This is in sharp contrast to South Africa, where reductions in schooling inequality have not led to reduced income inequality. Lam, Leibbrandt and Finn (2014) attribute this to the increased returns to education in grade 12 and above since 1994.

Many of the policies being pursued in Latin America have also been adopted in South Africa. Progressive taxation and a large-scale programme of social grants have been in place for some time. Public works programmes have been rolled out on a fairly large scale and both the coverage and level of minimum wages has increased. So why the contrast in terms of distribution outcomes? The big difference is South Africa's extraordinarily high rate of unemployment, especially for those with limited skills. Labour-intensive sectors such as agriculture and mining have seen large declines in employment, as have the labour-intensive branches of manufacturing. In countries like Brazil, employment grew rapidly, including of low-skilled workers. Linked to this was a reduction in the skills premium and greater labour market equality.

Another issue has been the poor quality of education, health and other services delivered to low-income earners in South Africa. Poor delivery impacts directly on inequality and poverty and, in the case of education, has long lasting effects.

More rapid economic expansion in South Africa is an important objective, but, at any given level of growth, the economy needs to become more labour absorbing. In fact, it is not only incremental growth that needs to become more employment intensive: the economy as a whole needs to become more labour absorbing. A central question, therefore, is how to bring about changes in the economic structure and the pattern of development that would lead to the attainment of this objective.

The Latin American experience carries many important parallels and lessons for South Africa and this book warrants close study. It is sharply critical of orthodox structural adjustment as it was applied in Latin America from the 1980s and provides voluminous evidence to support the reforms introduced since the late 1990s. According to Cornia, these together represent the "surfacing of a new policy model" that responds to the perceived limitations of Washington Consensus policies as well as the steady move towards greater democratisation.

The overall conclusion is that policies need to be redistributive and that redistributive policies can work. Simply pursuing growth and hoping for the best is not the route to reducing inequality; the right policies need to be selected and they need to be well implemented. While South Africa can definitely draw on the Latin American experience, it will need to find its own route to a more equal society.

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2014. "Schooling inequality, returns to schooling, and earnings inequality: Evidence from Brazil and South Africa", *UNU-WIDER Conference on Inequality – Measurement, Trends, Impacts and Policies*. Helsinki. ➤➤

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A PELICAN
INTRODUCTION

Economics: The User's Guide Ha-Joon Chang

ECONOMICS: THE USER'S GUIDE

A Pelican Introduction

Reviewed by Helen Douglas

Ha-Joon Chang
Pelican/Penguin: London. 2014. 503 pp

Ha-Joon Chang's 2002 *Kicking Away the Ladder* argued that the industrialisation of Europe and North America was achieved through the use of interventionist government policies – precisely the kind of policies that the IMF and WTO forbade to developing economies of the global South. The Cambridge-based economist followed up with *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism* in 2008 and *23 Things They Don't Tell You About Capitalism* in 2010.

Economics: A User's Guide is an even more ambitious broadside against the authority of economic orthodoxy. Chang wants the rest of us to become informed users of economic ideas: "to learn economics in such a way that one becomes aware of different types of economic arguments and develops the critical faculty to judge which argument makes the most sense in a given economic circumstance and in light of which moral values and political goals (note that I am not saying 'which argument is correct')." He starts by cutting the subject

down to size. Economics isn't the study of all human behaviour, as popular books like *Freakonomics* would suggest; it's only the study of the economy. With quick deft strokes, he sets out the roles of different economic actors and sketches nine schools of economic theory. There's even a cocktail menu for combining these to gain a more complex understanding of particular aspects. Chang, who favours heterodoxy over orthodoxy, adds a health warning: "On no account drink only one ingredient – liable to lead to tunnel vision, arrogance and possibly brain death."

The book then provides a basic explanation and vocabulary of production, work, distribution, finance, trade, the role of the state and the private sector. It's sharp, clear, interesting and well paced.

Once we gain that common ground, the second half discusses how to use economics to understand "the real world economy". Here, with plentiful examples, we look at conditions of income, inequality, trade, production and the state, and the stories that are told to account for these conditions. Chang's discussion of "market failure" vs "government failure" is particularly helpful. Elsewhere, though, he asserts that the problem of high unemployment

in a developing economy like South Africa must be addressed through growth from expanded trade in manufactured products. Maybe it's so, but I don't think he makes his case (which just goes to show how helpful the book this is for sharpening one's critical faculties).

While Chang respects his readers' intelligence, he is also sympathetic to the sense of overload non-economists experience when navigating these waters. He advises how to get something out of the book in half a day (read the headlines, sections titles and summaries), a couple of hours (Chapters 1 and 2, the Epilogue, and flick through the rest), or even 10 minutes (chapter titles and first page of each).

If you're nervous of getting even that close, Chang's five essential teachings on economics are enclosed on a slip of paper about the size of two fortune-cookie fortunes – his *Little Blue Book*:

1. 95 percent of economics is common sense.
2. Economics is not a science.
3. Economics is politics.
4. Never trust an economist.
5. Economics is too important to be left to the experts. ➤➤

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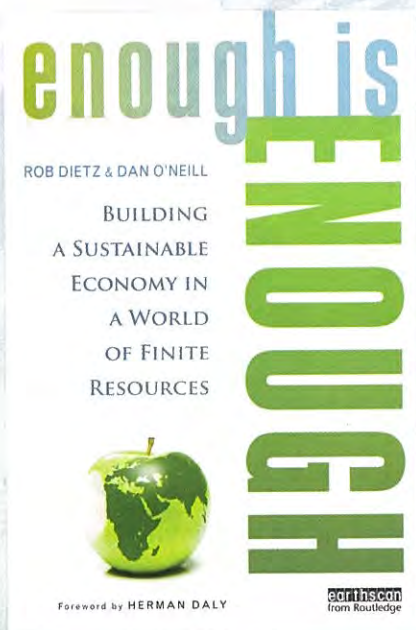
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Enough is Enough serves as a primer to the idea of a steady-state economy and will be useful for those trying to introduce these concepts to students and lay audiences.

ENOUGH IS ENOUGH:

Building a Sustainable Economy in a World of Finite Resources

Reviewed by *Shaun Ruggunan, School of Management, University of KwaZulu-Natal*

Rob Dietz and Dan O'Neill
Routledge: Abingdon, 2012. 240 pp

The idea of “sustainability”, no longer the exclusive project of left or alternative politics, has indeed become mainstream.

While the arguments for various types of sustainability may be compelling, its proponents have been less adept at suggesting ways to implement sustainable economic practices. It is in this regard that *Enough is Enough* is so valuable. Not only do Dietz and O'Neill provide a careful and sustained analysis of the (il)logics of capitalism in its current form, there is also a manifesto of sorts for strategies to reconfigure and ameliorate the impact of a world obsessed with accumulation.

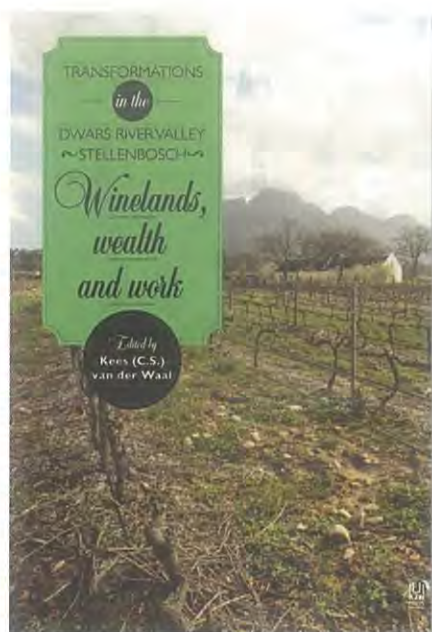
The book begins with a conceptual introduction to the idea of “enough” that challenges the idea of “growth for growth’s sake”. It is written accessibly without being condescending towards its readers. The authors suggest that movements towards voluntary simplicity need to coalesce to a mass movement that acknowledges that current economic models are counterproductive to human development, happiness and wellbeing.

The balance of the book is devoted to specific areas that impact on sustainability, with chapter titles such as “Enough debt”, “Enough unemployment” and “Enough inequality”. While these are well rehearsed themes among economists,

Dietz and O'Neill introduce the puzzle and then suggest practical ways in which these issues can be resolved through a shift in the way we think about, and practice, economics.

I especially appreciated the chapter on “Enough materialism”, which makes the larger point that we can't delink the economy from society: national and global economic practices are informed by the values that we hold as individuals and societies. Materialism is a symptom of a society (middle-class affliction, maybe) obsessed with accumulating and acquiring things, often for the sake of accumulation. These values then feed into economic policies that do not allow for what the authors conceive as a “steady-state economy”, but instead serve a fetishised need for constant growth despite diminishing returns on equality.

Enough is Enough serves as a primer to the idea of a steady-state economy and will be useful for those trying to introduce these concepts to students and lay audiences. The book will be especially thought-provoking for those enrolled and employed in business schools (like mine) as well as for readers who want a practical “how-to guide” to strategise towards a more suitable economic world order. >>



WINELANDS, WEALTH AND WORK:

Transformations in the Dwars River Valley, Stellenbosch

Reviewed by Howard Smith

Kees (CS) van der Walt (ed.)

University of KwaZulu-Natal Press: Scottsville, 2014. 247pp

The Dwars River Valley is the beautiful gateway to the Franschhoek Valley. The photographs in this book capture that scenery, but its focus is the lives and living conditions of the valley's inhabitants. *Winelands, Wealth and Work* is a collection of ethnographic studies that look at changes over time. The editor, a Stellenbosch University professor of anthropology, acknowledges contradictory historical processes: "Political transformation on a national level has enhanced workers' rights... [but] economic changes relating to the move from production-orientated capitalism to neoliberal finance-based capitalism have undermined workers' security."

The greater part of the valley belongs to the Boschendal Estate. Farms first developed by Dutch settlers using slave labour were consolidated, from 1895, by Rhodes Fruit Farms as a commercial enterprise with wage labour, including migrant workers in hostels. After 1936, it passed to various owners before being consolidated again by Anglo American Farms in 1969.

Alongside Boschendal, one finds the mission village of Pniel, dating from the emancipation of the slaves; Kylemore, which from 1901 catered for the growing

population of Pniel; and Lanquedoc, established by Rhodes Fruit Farms for agricultural workers in 1902. Lanquedoc's population quadrupled between 2001 and 2004 when Anglo American Farms moved workers off its farms. Adjustment challenges seeded the many social problems that are so well described as the "slow violence of poverty" in psychologist-ethnographer Lou-Marié Kruger's chapter. Anglo American Farms opted to sell much of its formerly productive land as "estates for gentleman farmers"; the displaced workers paid the price.

An alternative approach to change was taken by the smaller Solms-Delta farms at the foot of the valley. Here, philanthropist owners granted workers and residents a share in the ownership of the land and management of the farm. Tourism, cultural activities, health and education are the foci of development at Solms-Delta – a model that contrasts sharply with the exclusions of Anglo American Farms' neoliberal approach.

The collection includes studies of the communities' approach to crime prevention through neighbourhood watches, of women's efforts to provide financial security, and of the impact of a new Pentecostal church on Pniel's traditional population.

The role of government policy in developments in the valley is clearly not central to the researchers' interests, and

questions that cry out for investigation are passed over without comment. What is the effect of the continued application, noted in passing, of the Western Cape's 1985 Land Use Planning Ordinance on residents' rights and opportunities granted under South Africa's 1996 Constitution? Is it this apartheid-era legislation that prevents workers from acquiring title to erfs on designated agricultural land? And why, despite additional funding from Anglo American, did the majority of the social housing units built in 2004 suffer severe defects? Did the mansions built for sale to "gentlemen farmers" similarly disappoint their new owners?

In these and other ways, *Winelands, Wealth and Work* raises questions that merit more probing investigation.

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CAMPUS UNCOUPLING SET TO PRODUCE MORE DOCTORS

At the 2014 spring graduation of the University of Limpopo (UL), it was announced that this would be the institution's last graduation with the Medical University of Southern Africa (Medunsa) campus. Professor Mahlo Mokgalong, Vice-Chancellor of UL, uncovers the important aims behind these significant campus changes.

Professor Nehemiah Mahlo Mokgalong spent many years looking into a microscope during his BSc (Hons), Msc and PhD (Natural Sciences) studies at the University of Limpopo. He is currently the Vice-Chancellor and Principal of UL, has received numerous international awards for his research into parasitology, and is active on several boards, including that of the Association for Black Empowerment in Higher Education and the Association of Vice Chancellors of Higher Education South Africa (HESA).

A BRIEF HISTORY

Established in 1976, the Medical University of Southern Africa (Medunsa) set about catering for the country's health-care needs by training African students in the full range of health sciences programmes – from medicine and nursing to dietetics, occupational therapy and physiotherapy, speech and language therapy, pharmacy and public health.

Post-1994, the late former minister of education, Professor Kader Asmal, took the decision to restructure the higher education landscape to improve on efficiencies. This resulted in various

mergers and incorporations of higher education institutions. One of these merged the former University of the North and Medunsa, on 1 January 2005, resulting in the University of Limpopo (UL), with Medunsa forming its Health Sciences campus.

The decision to unbundle Medunsa from UL was taken at the ANC's National Executive Committee Lekgotla in 2011, in an attempt to increase the number of higher education and training institutions in the country. The old Medunsa campus has been incorporated into the Sefako Makgatho* Health Sciences University (SMU).

In Dr Blade Nzimande's media briefing on 12 January 2015 ("More higher education opportunities for 2015", available at SAnews.gov.za), such uncouplings were in line with the department's post-school education plans, that had already resulted in an increase of 28 646 opportunities in higher education institutions this year, compared with those on offer in 2014.

A HONOUR FOR LIMPOPO

Professor Mahlo Mokgalong says those who have studied at UL's medical campus in the past (the university's alumni) would not be affected, except for the fact that the institution where they qualified has

a new name. "This happens all over the world," says Prof Mokgalong. "For the Limpopo Province, however, the result of being granted the country's ninth medical school is a great honour, and will do the important work of increasing the number of healthcare professionals, especially medical doctors, in the region."

UL will be ready for its first intake of 60 medical students in January 2016, all of whom will have received bursaries from the Limpopo Provincial Department of Health. "While Cuba has agreed to assist in training our medical doctors in the interim, our relevant national departments should plan to build a new medical school every five years, until we reach the point of having at least one medical school in each province of the country," enthuses Prof Mokgalong.

While many of the existing university buildings are ready for use in their current state, there are plans afoot to add on to the UL campus. These plans include the establishment of a state-of-the-art teaching hospital (at a cost of R1.2 billion) and a new medical school (at a cost of R1 billion). Funding will come from two national government departments, namely the Department of Higher Education and Training and the Department of Health.

Finding Solutions for Africa.



Prof Mahlo Mokgalong

Prof Mokgalong says there is already the required number of accredited staff to train the new 2016 intake; 8% of UL staff are both medical specialists and equipped to teach the incoming students. New courses for UL are also in the pipeline, such as programmes that will train medical technicians.

The Vice-Chancellor's vision for the improvement of health-care services for our population and working conditions (especially the overly long hours) of government hospital-based medical staff, involves the government seeking out new ways to engage with medical doctors who have gone into private practice. Just adding a few hours of their time each week at government overtime rates, would lift the burden on staff at government hospitals. Prof Mokgalong's hope is that these

infrastructure and efficiency-planning scenarios will result in more higher education opportunities and an increasing number of qualified health sciences graduates for SA. And the alumni? 'Despite the name change, the university remains your alma mater and we encourage you to get involved in future events and fundraising efforts,' he concludes.

[*The institution has been named after Sefako Makgatho, late ANC treasurer and model African leader, who was referred to in the media, on what would have been the 100th anniversary of his birthday (28 October 1961), as a man who was "versatile and always available when [his] services were required by other people".]

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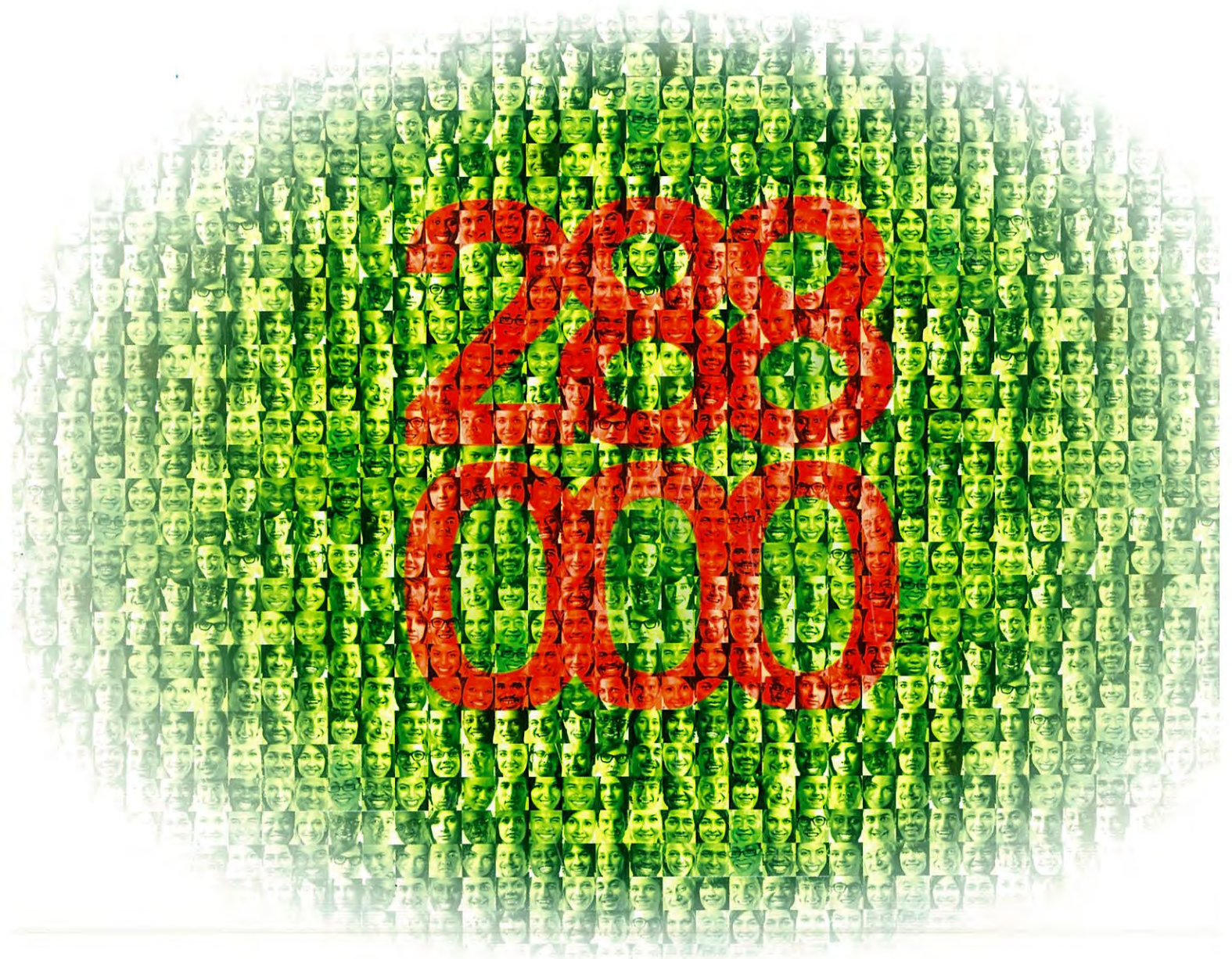
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