

Keys *and* Patel: *the* economic debate *continues* ...

In the last issue of LABOUR BULLETIN, we published interviews with Finance Minister Derek Keys and COSATU's Ebrahim Patel. In this issue we ask a panel of experts to comment.



"A tricky business"

Tito Mboweni: Department of Economic Policy, ANC

The issues raised in the two interviews are all important, but I will only comment on three of them: the difference in the approach of COSATU and the government, as represented by Patel and Keys to the National Economic Forum; their approach to incomes policy; and finally, how components of the

democratic movement intervene and/or negotiate with the state and business on policy issues which impact on all sectors of society.

It is quite clear that Keys and Patel approach the National Economic Forum from completely different angles. Keys sees the NEF as a forum to "reach consensus on certain issues and the different parties will then have to give effect to that consensus". COSATU, according to Patel, sees the NEF as a "negotiating body" through which COSATU would "seek binding agreements". It seems that these key forces in the NEF have glossed over a fundamental difference about the status of deliberations at the NEF. This will impact at some point on the processes of the NEF, unless revisited as soon as possible. This

ambiguity must be removed and the status of the deliberations clarified, in accordance with the procedures adopted in other negotiating forums.

It is evident that the critical issue of an incomes policy has not been fully considered by these two participants of the NEF, and this could become a new obstacle. An incomes policy is important given the fact that business has consistently argued - and it surely will in the NEF - that one of the key costs of production is rising wages. Yet one could argue that there are many other structural problems which are responsible for the high cost structure. The democratic movement - and in particular COSATU and the ANC - need urgently to develop an incomes policy.

This brings me to the core

of my observation: that when one enters negotiations about the economic future of South Africa, one must have clear and well-supported positions to put on the table. One cannot negotiate such critical issues on an ad hoc basis and muddle through. To this end one must assess whether Keys and Patel have developed coherent policies which they use as their negotiating positions. Keys will certainly use his Normative Economic Model as his negotiating position, which he has already presented to the NEF.

COSATU on the other hand has only "essential elements of a macro-economic framework" arising out of their Economic Policy Conference and the work of affiliates. There does not seem to be an overall mass democratic movement framework which COSATU uses at the NEF.

This raises questions of how the democratic movement as a whole should intervene and negotiate around specific issues which relate to the short, medium and long term restructuring of our society. We need mechanisms of ensuring that any component of the democratic movement in such negotiations – be it constitutional, local government, housing or economic – acts in such a way that others are fully behind proposals submitted. This will maximise the unity and impact of the democratic movement and ensure that such proposals are within the overall

perspectives of reconstruction shared by the mass democratic movement. ❖



"Much still to be done"

Marcel Golding: Assistant general-secretary of the National Union of Mineworkers

The interview with Derek Keys provides interesting insights into government thinking on the direction of the SA economy. The subsequent publication of the Normative Integrated Economy Model and the details of the budget complete the puzzle of the government's growth strategy. There are four observations that I would like to make on the Keys interview.

It is probably correct to assume that the *National Economic Forum* will not be able to solve all the economic and developmental problems that we inherit. But it will be the key forum to negotiate a developmental framework agreement between government, business and

labour. Specific task groups will be able to work on defined issues that require concrete proposals for implementation. In some respects, Keys' approach has been different from his predecessors in his willingness to engage the trade unions, but much still has to be done to develop a culture of openness and disclosure on many fronts. COSATU's participation in the NEF is directed to engage the government and employers within the framework of our programme for reconstruction and development. For that reason it is focusing on the issues of job creation and industrial policy amongst others.

On *wastage and corruption*, Keys' response is totally unsatisfactory. Where billions of public money have been mismanaged and where black people cannot correct it, it is evident that Keys has already made the transition from businessman to politician by his rather facile defense of government's financial management and conduct. In a similar vein, the issue is really not so much about government consumption and expenditure, but rather where this expenditure and consumption is directed. It is correct and necessary to attack corruption, because the mere redesign of government machinery does not in itself mean no corruption.

On the issue of *human resource development* Keys'

interview is least helpful: "There is quite a lot in place. As you know the technikonos are not full." Yet it is a key pillar on which we have to develop our international competitiveness. Historically, our international comparative advantage resided in cheap labour exploiting the abundance of minerals we possessed. But in the 21st century, it has to be in the efficiency and productivity of our labour, effective work organisation and management of our enterprises. Fundamental to this is education and skills development. A coherent vision, that would take the existing and potential workforce from its present stage of low skills levels on career paths which would provide greater flexibility to industries as well as the labour market, is imperative. Existing surveys show that over 60% of our population is functionally illiterate. If we are to develop the competitiveness of our industries, a national adult basic education is necessary as a platform on which we can develop the skills of our workers. For our managers too, education is required to ensure our industries are able to deal with the global competition.

It is now generally acknowledged that *investment* is fundamental. Whilst Keys' is correct that the fiduciary duty of institutions with huge contractual savings requires prudence, measures should be

undertaken that will encourage them to invest in areas that would benefit the country. The removal of prescribed investment has now left all the decisions to fund managers. Alternative mechanisms should be sought that would encourage investment in enterprises that have sound economic fundamentals, but that may not fit the classical blue chip profile. This would still involve choice for the fund manager, but would provide the necessary capital formation desperately required by these developing enterprises. ❖



"Keep a close watch"

Nicoli Natrass: Economist, University of Cape Town

Derek Keys can be a forthright and refreshing Minister of Finance. This is reflected in his recent interview with the *LABOUR BULLETIN*. Rather than rabbit on unintelligibly about the balance of payments, elasticities of demand and the like, Keys bluntly (and

correctly) informs us there are no soft options left: we are caught between a rock and a hard place.

Great stuff. But never forget that Keys is a consummate politician. He can be as wily and obtuse as the best of them. It is not for nothing that Keys is something of a hero in government, business and labour circles. But he travels a dangerous road. Those who hold out the promise of a costless, co-operative path to collective prosperity tend to come unstuck when the inevitable conflicts appear through the gloss.

For example, Keys argues that creating a climate conducive to growth is not a zero-sum game: if we could get organised labour to adopt a stance which would have a positive effect on business confidence, it would be to the advantage of everyone.

Indeed. But let's dig a little deeper. What is this stance that labour must adopt? When pressed, Keys disarmingly admits he isn't sure. He says there is probably a role for an incomes policy (involving some wage restraint in return for improved patterns of government spending), but is uncertain whether the time is ripe: "if we had an incomes policy 15 months ago I think wages would not have come down as effectively as much as they have."

Are we to deduce that Keys believes falling wages are a precondition for the restoration of business

confidence and that lower wages will boost employment? He may well be right on both scores. However, if the 'stance' Keys wishes organised labour to adopt is that of sacrificial lamb for the greater economic good, then he should say so. But then again, what politician would?

And what does Keys think an improved pattern of government expenditure would entail? In short, cutting day to day running costs of government. A fine aim, but why does he believe that addressing government corruption (a wasteful misallocation of tax revenue by anyone's book) is a side issue? And why does he include education, which surely should count as investment in human capital, as part of such expenditure?

Beware the wolf in social-democratic clothing. Labour should keep a close watch on this politician. ❖

"Remarkably harmonious"

Edward Osborn: Chief Economist, Nedbank

Without being patronising in the least, I found the interviews with Keys and Patel read together as being remarkably harmonious, that is with the neat blend of the smooth worldly wisdom of Derek Keys and the earnest enthusiasm, but breadth of vision, of Ebrahim Patel.



Besides transparency there has to be involvement and participation in the whole process of decision making for economic consequences to be legitimate and therefore acceptable. It was most encouraging to read Patel's remarks about action at the affiliate level, the identification of issues that will capture the interest and involvement of members, and the goals of unionism lying beyond the immediate preoccupation with wages to embrace a greater holistic developmental perspective. We now have markedly improved prospects of moving from years of bruising confrontational behaviour to an era of consensual negotiation based on mutual respect and equal constituency authority.

The NEF is in many respects an institutionalising of these characteristics. The NEF objectives were the sole instance of contradiction in the interviews – the consensus of Keys and the formal agreement of Patel. This matter is central and will

have to be resolved early. My own predilection is for consensus. I am concerned by the apparent motivation of COSATU to use the NEF as an instrument of securing power through decisions which will be legislative on government and business. Besides being impractical it will turn the NEC into a fractious pit of conflict.

Keys' and Patel's remarks about industrial policy are complementary, both stressing the fundamental importance of progress dependent on improvements to productivity, not as is often so narrowly perceived as more sweat, but as a function of improved management and appropriate technology, and fresh investments. As Keys says there will be scope for both labour and capital intensive industries. Indeed any form of planning that is prescriptive in this regard from the start will be doomed to failure and will be wasteful of capital resources. From this point of view I personally welcome the modest and limited purpose of Keys' Normative-Integrative-Management-System to be normative.

Understandably Keys had little to say about the budget at this stage and Patel had quite a lot, all quite unexceptionable and sensible. But the real scope for cutting state expenditures has yet to be revealed. It is easy to presume that there is much scope, but it always proves

to be hell's own job to cut back on a bureaucracy. Furthermore I believe COSATU is either naive or politically overplaying the dividend from the elimination of corruption. It has to be said that corruption is not something specifically voted for by Parliament and what is to be gained from eradicating corruption is improvement of delivery and the quality of service, not necessarily savings.

Yes, one must welcome proposals for commissions to re-examine the whole system of taxation – but this is not entirely new for there was that of Margo in recent years – and of departmental performance in delivering service; and of course whatever further strengths that can be given to the Auditor-General, who is an officer of Parliament.

There remains one enormous problem and that was alluded to by Patel, namely that of what he describes as patronage within the state. The problem goes deeper, for it is one of loyalty that any state is entitled to expect of its bureaucracy.

The problem is to effect a blood transfusion that is equitable, fair, least harmful to blighted promotion opportunities and expectations, and does not end in a bloated civil service that ultimately, as in the case of Zimbabwe, needs traumatic IMF attentions. ❖



"Conflicting priorities, Mr Keys?"

Alistair Smith: NUMSA researcher

Mr Keys holds employment creation as the main priority. But in the same breath he warns us that his government is unlikely to do anything concrete about creating employment, particularly not in the classical reflationary way (ie increased government spending on capital projects especially infrastructural projects that are labour intensive).

A further indication of exactly where minister Keys' loyalties lie is his view on investment and mega projects:

Firstly, without a moments hesitation he rushes to support continued investment in two highly capital intensive projects, the Alusaf expansion project and the Columbus stainless steel project on the grounds that this country has always had capital intensive projects in the past. It is interesting that he cites massive investment in the OFS minefields as our most recent and major precedent.

However, if we consider the 'benefits' of capital investment in the recent Mossgas and Sasol projects we may well conclude that we should be very cautious with continued investment in megaprojects. Unless of course "we" are a big conglomerate with profitable interests in the continued abuse of the country's resources.

Secondly, Mr Keys argues that capital and labour intensive projects are not incompatible, as labour intensive projects are not too expensive. This rather crude formulation does not explain why we are still sitting with an unemployment figure in excess of 4 million people. Why don't we then start as many labour intensive projects as we need?

Mr Keys also argues that there is nothing "funny" about these projects. By this he means that they will not require export subsidies or tariff protection. However, this is a touch misleading as it is no secret that neither of these projects would have gone ahead if it were not for the special tax concession under section 37E of the company tax act. This provision allows for accelerated depreciation of the group's interests before the project is actually commissioned, ie before actual production commences. In the case of Alusaf the project would not have seen the light of day if the company did not get a

commitment from Eskom for preferential tariffs. By linking the cost of electricity to the world price of aluminium, the public utility will effectively be subsidising the cost of the major input if the world price of aluminium is below a certain level.

However, whether or not there are subsidies or assistance is not the major issue, as it may well be in the interests of society at large that we embark on certain projects that require some "funny" intervention such as tariff protection or subsidy.

But if investment is scarce, then we need to ensure that where it does take place it is going to benefit society and not just private shareholders. This should all the more be so where society is expected to subsidise private investment.

Apparently Mr Keys does not agree with this. He is not too keen to spoil his friendship with those behind such projects, by forcing them to further enhance downstream activities, where the potential for job creation is the greatest. In fact he is firm in his view that driven by market forces they will of their own volition see the need to develop downstream activities. So when it comes to big capital interest in big projects for big profits then big doses of assistance and friendship are in order. When it comes to addressing the main priority (or is it a small priority?) of reducing unemployment it is best left to the spirit – or ghost – of the

entrepreneur driven by market forces.

It would be foolish to suggest that the choices and policies required are simple and straight forward. Obviously the issues are quite complicated. It is precisely because of this that the simple market approach of Keys is so objectionable. Concrete policies and programmes to address employment creation, industry development, skills development etc are not going to fall from the air or be delivered by the market. They involve political choices that are underpinned by conscious and committed intervention. ♦



"Difference in perception"

Paul Hatty: Chair of Industrial Policy Committee of SACOB

The business community represented by the South African Chamber of Business (SACOB), is committed to the National Economic Forum (NEF) and is a full participant in its operations.

We are concerned at the difference in perception of the role of the NEF between Minister Derek Keys and Ebrahim Patel. It is important that all players in the NEF have a common view of the Forum's role and remain committed to it. However, this may only evolve as members gain experience in working and negotiating together. The business community recognises that the government has the responsibility to govern, but does visualise the NEF playing a slightly more direct role in policy and strategy formulation than Minister Keys has intimated.

In order to address those issues which need to be addressed – which will undoubtedly include the issue of industrial restructuring – the NEF will require an appropriate structure. SACOB believes that a working group/forum that addresses issues related to the manufacturing industry should be constituted under the umbrella of the NEF. It could well also have working groups/forums that focus on agriculture, mining or other sectors of the economy. The advantage of such a structure would be to ensure a greater degree of co-ordination and consistency in policy-making than has been the tradition in the past. ☆