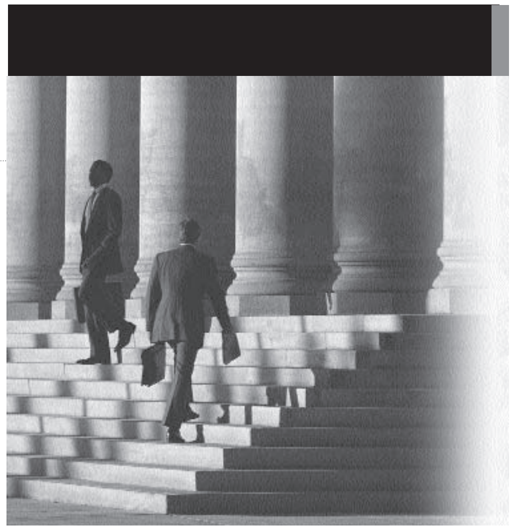
COVER STORY



Two worlds

two economies

*The **Labour Bulletin** has taken extracts from two inputs made by **President Thabo Mbeki** in his weekly column on the ANC website on his views around the two economies.*

Steps to end the 'two nations' divide (22-28 August 2003)

All the matters we are discussing have the most direct bearing on what has been described as our 'first world economy'. This is the modern industrial, mining, agricultural, financial, and services sector of our economy that, everyday, become ever more integrated in the global economy. Many of the major interventions made by our government over the years have sought to address this 'first world economy', to ensure that it develops in the right direction, at the right pace.

It is clear that this sector of our economy has responded and continues to respond very well to all these interventions. This is very important because it is this sector of our economy that produces the wealth we need to address the many challenges we face as a country.

Central among these, as we all know, is the urgent challenge of poverty that continues to afflict millions of our people. A stronger 'first world economy' also gives us the possibility to better confront the task of reducing the racial and gender inequalities in standards of living and the quality of life, that continue to characterise our country.

After the July Cabinet Lekgotla we also said that the successes we have scored with regard to the 'first world economy' also give us the possibility to attend to the problems posed by the 'third world economy', which exists side by side with the modern 'first world economy'.

Here I am referring, for instance, to those areas the government identified earlier as the nodes for Urban Renewal and Integrated and Sustainable Rural Development. These and similar areas contain the largest numbers of poor people in our country. But this is not the only issue that characterises and sets them apart.

Of central and strategic importance is the fact that they are structurally disconnected from our country's 'first world economy'. Accordingly, the interventions we make with regard to this latter economy do not necessarily impact on these areas, the 'third world economy', in a beneficial manner.

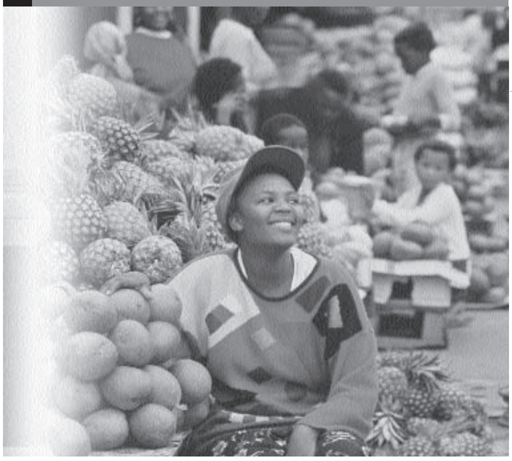
This structural disjuncture is manifested in a variety of ways. One of these is that many of the unemployed in these areas have either no skills or very low skills levels. As the economy of our country has developed, it has tended to require people with higher levels of appropriate education and training. This renders many of the unskilled both unemployable and incapable of starting any small business that requires one skill or another.

Because of these realities and the fact of poverty, these sections of our population also have no access to the services offered by the modern financial sector that is part of the 'first world economy'. Accordingly, even where people within the 'third world economy' seek micro-credit to finance the development of small business, they do not get such credit. Rather, they fall victim to unscrupulous moneylenders, omashonisa, who lend money, at exorbitant rates, to people who borrow for purposes of consumption.

It is sometimes argued that higher rates of economic growth, of 6% and above, would, on their own, lead to the reduction of the levels of unemployment in our country. This is part of a proposition about an automatic so-called trickle-down effect that would allegedly impact on the 'third world economy' as a result of a stronger 'first world economy'.

None of this is true. The reality is that those who would be affected positively, as projected by these theories, would be those who, essentially because of their skills, can be defined as already belonging to the 'first world economy'.

The task we face therefore is to



devise and implement a strategy to intervene in the 'third world economy' and not assume that the interventions we make with regard to the 'first world economy' are necessarily relevant to the former.

The purpose of our actions to impact on the 'third world economy' must be so to transform this economy so that we end its underdevelopment and marginalisation. Thus we will be able to attend to the challenge of poverty eradication in a sustainable manner, while developing the 'third world economy' so that it becomes part of the 'first world economy'.

This means that those who benefit from the growth and development of the 'first world economy' will benefit even more from its expansion, resulting from the development of the 'third world economy' to the point that it loses its 'third world' character and become part of the 'first world economy'.

To get to this point will require sustained government intervention. This is because, given the structural disjuncture that separates the 'first world' and 'third world' economies, we cannot and should not expect that there would be any mechanism inherent within the 'first world' economy that would result in the latter transferring the required resources to the former, to enable it to outgrow its 'third world' nature.

We mention resource transfers because this is exactly what the 'third world economy' requires to enable it to break out of its underdevelopment. These resources include education and training, capital for business development and the construction of the necessary social and economic infrastructure, marketing information and appropriate technology, and the ways and means to ensure higher levels of safety and security for both persons and property.

Meeting the challenge of the second economy (14-20 November 2003)

The Second Economy (or the Marginalised Economy) is characterised by underdevelopment, contributes little to the GDP, contains a big percentage of our population, incorporates the poorest of our rural and urban poor, is structurally disconnected from both the First and the global economy, and is incapable of self-generated growth and development.

To respond to the challenge of this Second Economy, we have examined the system of 'Structural Funds' instituted by the European Union (EU) in respect of its regional policy, which is based on financial solidarity of transferring a portion of the EU's budget to the less prosperous regions and social groups within the EU.

The EU programme is premised on the reality that 'the market cannot be relied upon to meet the development needs of the "less favoured regions" within the EU, guarantee the achievement of the centrally important objective of social cohesion, and provide the means for the implementation of "strategies for catching up".'

In the same spirit, the Cabinet has resolved that the development of the Marginalised Economy requires the infusion of capital and other resources by the democratic state to ensure the integration of this economy within the developed sector.

The Cabinet's decisions will necessarily involve active partnership with provincial and local governments and other social partners. The key strategies to meet the growth and development challenges of the Second Economy, include:

- the Integrated and Sustainable Rural Development Programme (ISRDP);
- the Urban Renewal Programme (URP);
- the Expanded Public Works Programme;
- a major boost to infrastructure spending, with an emphasis on the underdeveloped regions and communities;
- further support to local government's preparation and implementation of Integrated Development Plans (IDPs);
- the development of SMMEs and cooperatives, in both urban and rural areas;
- black economic empowerment;
- special programmes for women's economic development;
- the expansion of micro-credit to enable the poorest to engage in productive economic activity;
- the incorporation of the unemployed within the Skills Development Programme, especially as implemented by the Sector Education and Training Authorities (SETAs);
- the continued restructuring of our system of education so that it gives our youth the necessary skills to engage in economic activities of benefit to them;
- agrarian reform, including a Farmers Support Programme and forestry development in the interests of communities; and,
- the creation of the echelon of Community Development Workers to help build social cohesion in the Second Economy, and to help to develop strategies and forge links that can transform the Second Economy. LB