T T Mboweni: Reflections on some economic and social developments in South Africa in the past 15 years

Address by Mr T T Mboweni, Governor of the South African Reserve Bank, at the 10th Annual Steve Biko Memorial Lecture, University of Cape Town, Cape Town, 10 September 2009.

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Introduction

I wish to express my gratitude to the Steve Biko Foundation, the Biko family and the University Cape Town for extending this invitation to deliver the 10th Annual Steve Biko Memorial Lecture. I am particularly humbled to belong to the club of those who have previously addressed this august gathering.

September 2009 marks the 32nd anniversary of the murder in detention of Bantu Stephen Biko. It is, therefore, a fitting tribute to Steve Biko to hold this event in September, South Africa's heritage month. This is particularly so because the threat of forgetting who we are, where we come from and how we got to be where we are looms ever larger, particularly for the younger generations.

I never met Steve Biko personally, having been a teenager in Limpopo by the time he departed this world. His teachings, though, had a profound influence on me. That was the period historians referred to as a period of political lull. My ultimate involvement in politics stemmed, in part, from some of those efforts of the black consciousness movement to "conscientise" the masses and revive political activism. Indeed, as Archbishop Desmond Tutu writes in his preface to Steve Biko's *I write what I like*:

"Black Consciousness sought to awaken in us the sense of our infinitive value and worth in the sight of God because we were all created in God's image, so that our worth is intrinsic to who we are and not dependent on biological irrelevancies such as ethnicity, skin colour or race. Black Consciousness helped to exorcise the horrible demons of self-hatred and self-contempt that made blacks suck up to whites whilst treating fellow blacks as the scum they thought themselves to be. Black Consciousness aroused in us the knowledge of our share in what St Paul called the glorious liberty of the children of God, urging us to enter into that splendid heritage."[1]

Inflation

To break a bit with tradition, the thrust of my address tonight will be on economic issues. In particular, I will share a few observations and thoughts on selected macroeconomic developments in South Africa in the past 15 years. From 9 November 2009 I will no longer be allowed to comment on monetary policy. As the outgoing governor, however, I will take advantage of this platform to remind you of a few truths, one being that no central bank worth its salt can ever tolerate high inflation. Price stability may not be a sufficient condition but I maintain that it is a necessary condition for a solid foundation for sustainable growth and prosperity.

I would like to believe that Steve Biko would have been gratified by the fairly contained pace of inflation over the past 15 years, knowing the dire consequences of inflation for the poor – those who are usually least able to hedge against inflation – in particular. Since 1994 average headline inflation has amounted to approximately 6,5 per cent per annum. Over the

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[1] Steve Biko, *I write what I like*, A selected of his writings.

preceding 15 years, 1979 to 1994, it had averaged almost 14 per cent per annum. Inflation has been uneven over the period, though, induced typically by significant changes in key exogenous drivers of inflation, such as oil prices.

Secondly, the recent upsurge in strike action has led to some commentators describing the wave as a “winter of discontent”. In this regard, I would like to comment on some worrying trends in the settlements reached. Wage settlements above the projected rate of inflation and in excess of productivity gains tend to undermine the fight against high inflation. They lead to labour cost increases way above those of trade competitors and, therefore, loss of competitiveness.

Though I will discuss the labour market in much depth later, I need to refer briefly to our labour laws. Many commentators have described the labour market as rigid and inflexible. As the country’s first post-1994 Minister of Labour, some of the blame has been pointed in my direction. I am the first to admit that some things could have been done differently. Hindsight, however, is useful only when it improves our foresight. I would like to take this opportunity to espouse some of the theoretical and philosophical underpinnings behind the Labour Relations Act. The labour movement regarded me as a hero then.

Social ills

The break with tradition, however, cannot be complete when addressing such an established forum. I will, therefore, digress slightly and venture an opinion on a few matters not related to economics and central banking. The shameful xenophobic tendencies we witnessed last year should have caused all South Africans to exclaim: “Oh, beloved country, what would Steve Biko have said?” At the height of the attacks on foreigners most of us were notable by our silence and inaction. Sadly, such indifference, anger, hatred and violence towards foreigners, particularly black Africans, still finds expression among many South Africans.

This is at a time when we seek to accelerate economic integration in the SADC region, with all the lofty ideals of establishing a free trade area by last year (2008), a customs union by next year (2010), a common market and a monetary union by, respectively, 2015 and 2016. The ultimate objective of SADC is to build a region in which there will be a high degree of harmonisation and rationalisation to enable the pooling of resources in order to achieve collective selfreliance and improve the living standards of the people of the region.

At central bank level, an important milestone has been the completion of the drafting of the proposed SADC central bank model law, which will pave the way for the harmonisation of legal and regulatory frameworks.

Steve Biko observed that the most potent weapon in the hands of the oppressor is the mind of the oppressed. Indeed, the liberation of the oppressed is not only political, economic and social, but involves psychological liberation as well. Can we claim to have liberated our minds when the daily statistics of rape and other forms of violence against women and children leave us questioning the very essence of our humanity? This cannot be what Steve Biko envisioned when he wrote: “We have set out on a quest for true humanity, and somewhere on the distant horizon we can see the glittering prize. Let us march forth with courage and determination, drawing strength from our common plight and brotherhood. In time we shall be in a position to bestow upon South Africa the greatest gift possible – a more human face.”[2]

Delivering this lecture three years ago, Archbishop Emeritus Desmond Tutu asked: “What has come over us? Perhaps we did not realise just how apartheid has damaged us so that we seem to have lost our sense of right and wrong, so that when we go on strike as is our

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[2] Ibid.

right to do, we are not appalled that some of us can chuck people out of moving trains because they did not join the strike, or why is it common practice now to trash, to go on the rampage? Striking municipal workers empty trash on the streets, other strikers break shop windows, loot and trash the premises? Even our students on strike will often destroy the very facilities they need for their studies. What has happened to us? It seems as if we have perverted our freedom, our rights into licence, into being irresponsible. Rights go hand in hand with responsibility, with dignity, with respect for oneself and for the other."[3]

We can pose exactly the same questions today when the Bus Rapid Transit system, a bold attempt to improve public transport, leads commuters in Johannesburg being inconvenienced by a stayaway from some in the taxi industry hell-bent on holding the country to ransom whenever they are not having it their way and perceive a threat to shrink their market share. They will even go to the extent of firing live bullets at buses ferrying commuters. We are witnessing social ills that are partly rooted in our history as well as in unintended consequences of policy interventions during the post-apartheid period.

Health professionals abandon the sick in dire need of medical attention. Teachers abandon learners in favour of this it the other demand, usually very close to exams. Shopping at malls has become risking life and limb as marauding mobs, armed and ready to shoot to kill, strike brazenly and with such frequency. Striking municipal workers still trash our cities. Soldiers – those entrusted with the defence of the country and the constitutional order – disobey a court order and run riot near the Union Buildings, some of them armed. The scenes – the resultant mayhem and police firing at soldiers – would make responsible citizens to be very afraid and exclaim: "Oh, beloved country, what would Steve Biko have said about all those developments?"

Economic growth

Having been willing to give everything for the ideal of a democratic society, Steve Biko would have observed the progress of the country since democracy was introduced in 1994 with the greatest interest. In fact, he would have done more than that: he would certainly have been leading rather than observing, shaping events rather than being shaped by them.

In reviewing the past 15 years in the South African economy, and with the wisdom acquired over the years, he might have chosen to draw up a balance sheet of assets and liabilities, the positives and the negatives encountered over this period.

One of the highlights of the performance of the country has been the unprecedented levels of economic growth attained since the turn of the century. Calculated at constant 2000 prices, real gross domestic product per capita rose by more than 28 per cent, from R20 214 in 1994 to R25 897 in 2008.[4] Similarly, real gross national income per capita, which also allows for the effect of changes in the terms of trade on real income, rose by more than 29 per cent over this period. The level of real gross domestic product expanded by 63 per cent over the period 1994 to 2008, giving an indication of how much the overall cake had grown on a cumulative basis. The pace of growth, however, was uneven.

Economic growth, however, has not yielded the most desirable results as far as employment creation is concerned. Researchers assert that improved income levels since 1994 were more driven by welfare transfers than labour market absorption. Up to 2005, growth in employment largely tracked real GDP growth, albeit at a less than sufficient pace to meet the

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3 Steve Bantu Biko Memorial Lecture, delivered by Archbishop Emeritus Desmond Tutu, University of Cape Town, 26 September 2006.

4 Unless stated otherwise, data is from the Quarterly Bulletin of the South African Reserve Bank (various issues) and the SARS Customs and Excise database.

rapid growth of the labour force. The revised *Labour Force Survey* estimates, for instance, reveal that between March 2001 and March 2007 the absorption rate trended downwards from 45,8 per cent to 44,1 per cent.[5] Even more disheartening is the number of discouraged job seekers which grew from 1 725 000 to 2 511 000 over the same period. Females were more adversely affected than males by all these disappointing labour market outcomes.

Even though the demand side of the labour market has been disappointing, some strides have been made in enhancing the quality of labour supply. This, however, has not been even throughout all education levels. The proportion of the population aged 20 years and older without any schooling dropped from 19,1 percent in 1996 to 10,3 per cent in 2007, while the share of those with some secondary education increased from 33,6 per cent to 40,1 per cent.[6]

At the post-matric levels, however, the improvements are less dramatic. Over the ten years starting in 1996, the population over 20 years of age which completed higher education grew marginally from 7,1 to 9,1 per cent7.[7] Sadly, reality dictates that it is the quality of labour that determines employability. Evidence shows that growth in inequality is partly attributable to the fact that skilled workers were more favoured by growth in job opportunities.

Since the beginning of the new dispensation, our school system performed better in producing standard grade than higher grade matric passes in mathematics. Standard grade passes increased from 75 543 to 123 813 between 1997 and 2007. Higher grade passes dipped from an initial 29 475 to 19 327 in 2000 and recovered to 25 415 passes in 2007. Although the total number of graduates increased from 578 134 in 2000 to 741 380 in 2006, the share of science, engineering and technology graduates moved marginally from 25,5 per cent to 28,5 per cent over the same period.[8]

Opening up to the international community

Increased globalisation has been one of the defining characteristics of the world economy over the last two decades. The advent of democracy in 1994 ushered in a new era in South Africa's economic history. At the heart of this process was the integration of the domestic economy into the world economy.

Prior to 1994, apartheid South Africa faced large-scale international financial sanctions and isolation. This stifled economic activity in numerous ways. For instance, access to foreign sources of finance was blocked in the mid-1980s, resulting in a debt standstill in 1985 as South Africa could no longer roll over its foreign borrowing and honour its commitments. Unable to tap foreign savings, South Africa had to finance all its investment from its own domestic savings, and was therefore forced to run surpluses on the current account of the balance of payments. This, in turn, implied generally strict economic policy settings aimed at moderating domestic income and expenditure, thereby reducing imports.

With the transition to democracy, international sanctions were lifted away as the global community embraced South Africa. Whereas from 1985 to 1993 net outflows of financial capital averaging 2,4 per cent of gross domestic product were recorded, financial inflows have subsequently been registered in every year but one. The average net inflow from 1994 to 2008 amounted to 3,2 per cent of gross domestic product, augmenting domestic savings and making it possible to import more and grow faster.

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[5] Statistics South Africa. Labour Force Survey: Historical Revision March Series 2001 to 2007, Pretoria, August 2008.

[6] Statistics South Africa. Community Survey 2007, Pretoria, 2008.

[7] Ibid.

[8] The Presidency, Republic of South Africa. *Development Indicators 2008* (www.thepresidency.gov.za), 2008.

Significant reform of our trade policies has resulted in trade as a ratio of GDP increasing from around 40 per cent in the early 1990s to around 70 per cent in 2008. The nature of our trading relations has also changed significantly. In the early to mid-1990s, the developed countries – most notably those in Europe – accounted for around 60 per cent of South Africa's trade. Since then our export markets have diversified, with countries in Africa and Asia gaining in prominence. Around 25 per cent of our total exports are sold in Asian markets. India and China's rise in the global economy has been one of the main reasons for the rise in the demand for commodities. The two currently account for around 13 per cent of South Africa's exports.

The normalisation of international relations also involved a programme to gradually phase out exchange control. Up to March 1995 the so-called financial rand system applied to investment by non-residents. This not only inhibited outflows of financial capital, but also inflows. With the abolition of the financial rand system in March 1995, the country moved from two prices for foreign currency to a single price, thereby removing a dispensation prone to abuse, fraud and corruption. Moreover, while the door was opened for capital movements in both directions, it so happens that, subsequently, inflows have exceeded outflows quite substantially. The confidence in ourselves which was demonstrated by liberalising capital flows has been rewarded.

Further exchange control reforms of the past 15 years include allowing South African individuals to invest money abroad, or as foreign-currency denominated investments with South African institutions. The applicable allowance was raised over time and currently the maximum amount per individual is R2 million. A more liberal approach has also been adopted as far as investment by South African companies abroad is concerned. Such investments have contributed to development, competition and growth on the African continent and elsewhere. Furthermore, a number of prominent South African companies have been allowed to shift their primary listing to foreign securities exchanges, thereby making it easier for them to borrow money or issue shares in those markets. People who had previously illegally built up foreign assets were also granted amnesty to declare and legalise such asset holdings. Numerous persons made use of this opportunity.

South Africa seems to have benefited considerably from the greater freedom – with greater responsibility – which its citizens enjoy in the international arena. Both foreign assets and liabilities have risen considerably. Foreign currency markets have become more liquid. Under these circumstances the South African Reserve Bank has also been able to work down its oversold forward position in the market for foreign currency – its international liquidity position has changed from a negative US$25,2 billion at the end of 1994 to a positive US$36,9 billion at present. Apart from this, imports of goods and services have risen from 20 per cent of gross domestic product in 1994 to 38 per cent in 2008, while the corresponding ratio for exports has risen from 22 per cent to 35 per cent over the period.

Government finance: reallocating resources to social spending

In the area of government finance remarkable progress has been made over the past 15 years. In 1994 expenditure by the South African government had a significant racial bias. While significant additional expenditure was called for to correct this imbalance, government faced significant constraints: national government debt, for instance, was 50 per cent of GDP and debt service costs absorbed a considerable amount of funds.

Mindful of the need to structure national finances in a sustainable way, government decided to do the right thing rather than go the macroeconomic populist route. Government expenditure and debt were kept under control, the capacity of the South African Revenue Service to collect taxes efficiently was enhanced, and an environment conducive to economic growth was fostered. Progress was made on all these fronts, with the growing economy expanding the tax base and the formidable Revenue Service ensuring that the fiscus received what was due to it. The buoyant tax revenue growth over the past 15 years made it possible to raise government expenditure and transfers quite substantially while, at the same time, keeping the budget deficit small enough to reduce the ratio of government debt to gross domestic product to 24 per cent in the second quarter of 2009.

This prudent approach paid off recently when the international economic crisis led to a contraction in economic activity in South Africa. Low levels of government debt made it possible to adopt a much more expansionary fiscal policy stance under the circumstances, despite subdued tax revenues. Although this is set to raise the government debt ratio over the next few years, such increase is warranted in the interest of supporting economic activity and employment.

While an expansionary fiscal policy stance can bolster economic activity, it is crucial to simultaneously ensure that the expenditure incurred is productive. Much can and must still be done in this area. For instance, as highlighted by ANC Secretary General Gwede Mantashe in an address on 2 September, the micro-organisation of school education leaves much to be desired, with actual teaching in township and rural schools averaging only three-and-a-half hours per day. To correct this is not rocket science, but would need sustained good organisation and discipline. Throwing money at the problem would not in itself be helpful.

Financial sector developments

In the area of finance the period from 1994 onward brought numerous opportunities, as major impediments to the majority of the population's interaction with the financial system were removed. The demise of racially-based restrictions on the ownership of real estate, for instance, opened avenues for borrowing towards home-ownership and farming, and for using such fixed property as collateral.

However, the removal of legal impediments alone is not enough to move rapidly to a satisfactory state of affairs. As the saying goes, the only place where one would find "houses" before "jobs" is in the dictionary. While considerable progress has been made with the extension of home and land ownership through government programmes and initiatives in the private financial sector, not enough jobs (and accompanying remuneration flows) have been forthcoming to support sustainable home-ownership on the larger scale needed. This has also held back the extent of deposits or investments with, and borrowing from, the financial sector. Nevertheless, the extent to which jobs were created and to which previously "unbanked" persons became "banked" was sufficient to raise considerably the amount of money and bank credit in the economy relative to the nominal gross domestic product. For instance, in 1994 the broadly defined money supply, M3, amounted to around 47 per cent of annualised nominal gross domestic product. Currently the same ratio is approximately 83 per cent.

The many South Africans who did get a job frequently found that, in the wake of their new salary or wage flows, they received numerous offers to take up credit. Many of them became overextended, as suggested by the increase in the overall ratio of household debt to annualised disposable income from 56 per cent in 1994 to more than 76 per cent by mid-2009. So much friction was generated by this dispensation and government had to introduce the National Credit Act in 2007 to improve consumer protection. This is accomplished through measures such as enhanced disclosure in credit contracts and thorough screening of prospective borrowers' ability to repay debt before granting a new loan.

Fixed capital formation

It is gratifying to note the considerable strengthening of fixed capital formation in the South African economy. In 1994 capital expenditure was barely 15 per cent of gross domestic product. It took a long time to gain the momentum and put in place the processes necessary to raise capital spending, but since around 2003 this has started to happen. Currently fixed capital expenditure amounts to almost 25 per cent of gross domestic product. This says much about the self-confidence gained by South Africans and about the forward-looking focus of our society – characteristics which Steve Biko would have embraced and promoted with tireless energy.

Socio-economic trends

South Africa has come a long way in terms of rebuilding and healing from the legacies of the apartheid past. We all recognise that a lot still needs to be done. However, we can only learn by replicating what evidently works and reviewing what does not. A clear message emerging from socio-economic trends in the post-1994 period is that we should pay closer attention to policy implementation in terms of sequencing and understanding complementarities between macroeconomic and sectoral interventions.

From the socio-economic point of view, we can point out with pride that significant ground has been gained in improving the living conditions of ordinary South Africans. After the turn of the century the overall levels of poverty showed a definite downward trend, albeit gradual. The proportion of the population living below the Income and Expenditure Survey poverty line of R250 per month (at constant 2007 prices) increased from 31 per cent in 1995 to 38 per cent in 2000, and dipped thereafter to 23 per cent in 2005.[9]

Similarly, the levels of inequality peaked in 2000 and began to decline somewhat thereafter. The total Gini coefficient rose from 0,672 in 1993 to 0,685 in 1999 before trending downwards to 0,660 in 2007.[10] Inter- and intra-racial trends, however, remain worrisome. Although inequality has eased somewhat since 2000, among Africans it remains the highest compared with other population groups.

Furthermore, according to the All Media and Products Survey data, notwithstanding the low base, the share of income accruing to Africans marginally gained ground against that of other population groups, rising from nearly 32 per cent to 39 per cent over the 10-year period between 1994 and 2004.[11]

These trends are due more to the expansion of households receiving social grants. Whereas the year-on-year growth in welfare payments before 2000 averaged about 6 per cent, it soared to 40,4 per cent in 2001, thereafter decelerating to around 29 per cent to 2005 and 3,4 per cent in 2007. The total number of social grant beneficiaries expanded six fold from 2,409 million in 1996 to 12,386 million 2007. Nearly two-thirds, or just over 8 million of these recipients, were children.[12]

While no one can dispute the positive impact social grants have made on poverty, we need to interrogate the sustainability of the social welfare grant approach in the long run. I fully appreciate the need for the state and society to provide welfare support to citizens who are physically or mentally incapacitated due to illness, disability, or old age. But when millions of our people depend on social grants for sustenance, and urban legend has it that teenagers go to the extent of falling pregnant so as to gain access to grants, we need to ask ourselves, as I think Steve Biko would: are we not running the risk of these social grants becoming an end in themselves and thus nurturing a dependency syndrome, destroying the fabric of our society?

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[9] Ibid.

[10] Ibid.

[11] Van der Berg, S., *et. al*. A series of National Accounts-Consistent Estimates of Poverty and Inequality in South Africa, *Stellenbosch Economic Working papers: 09/07*, South Africa.

[12] The Presidency, Republic of South Africa. *Development Indicators 2008* (www.thepresidency.gov.za), 2008.

We have also witnessed notable improvements in living conditions of households. The number of households living in formal dwellings rose from 64 per cent in 1996 and peaked at 73,6 per cent in 2004 before moderating to 70,5 per cent in 2007. Access to services such as water and electricity also expanded. The proportion of households using electricity as the main source of energy increased significantly from nearly 58 per cent to 80 percent between 1996 and 2007. Access to piped water rose from 84,5 per cent in 1996 to 88,6 per cent of households in 2007.[13] Very commendable.

Conclusion

Steve Biko would be pleased to see South Africa emerging among the best performing economies on the global platform. He would be proud with our constitutional dispensation and Bill of Rights in which the rights for all are enshrined; the emerging Black middle class; the equitably structured welfare benefits; and the general decline in poverty. He would frown upon us for the failure to adequately intervene to address the spread of HIV and AIDS, and many social ills such as crime and, more specifically, rape and other forms of violence against women and children; the continuing racial and cultural intolerance as well as xenophobia. Steve Biko was most concerned about our worldview and value systems. For him this was more than just a manifestation of material well-being.

Ladies and gentlemen, allow me therefore to argue that, apart from the need to strengthen our family and community systems, we should not lose sight of revitalising our knowledge systems which are essentially broader than preparing our children to be economically productive, asset-backed citizens of the future. Our knowledge system needs a complete overhaul in which the youth grow to understand their authentic history (less the romance), their cultural progressive value system and what it means to be a good citizen. The groundbreaking work done by such prominent South African anthropologists as Dr Harriet Ngubane should be celebrated and replicated.

The growing unemployment rate combined with the partly undesirable inequality trends can be fertile ground for exacerbating polarisation among South Africans, leading to social tension across racial, class and gender lines. The current global economic recession adds to our woes. It is eroding some of the achievements we have made in stabilising the economy, broadening economic participation and improving the living conditions of many South Africans.

In conclusion, the current financial crisis and global recession nevertheless gives us the opportunity to re-evaluate our craft in dovetailing macroeconomic policy with industrial, trade and other strategic sectoral policies to ensure that future economic growth translates into tangible and sustainable well-being for all, especially our rural communities, women, youth and other marginalised sectors of society. More fundamentally, we are struggling to realise broad-based transformation of political freedom into economic, social and cultural freedom with the required degree of integrity, loyalty and professionalism. If we can overcome these challenges, we would have surely achieved some but not all the wishes of our fallen visionaries like Steve Biko.

“Keep the Faith”!

Thank you.

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[13] Statistics South Africa. *Community Survey 2007*, Pretoria , 2007.