

# Is SA on the path to progress?

**T**HERE is a great deal to celebrate in SA's first democratic decade. Achievements range from the introduction of fiscal and budgetary discipline to the transfer of assets to black South Africans through housing and land programmes. However, while SA has been dealing with the legacy of apartheid, the rest of the world has moved on.

SA is being outstripped by its global competitors in terms of quality of schooling, competitiveness of cities, the number of businesses we start and grow, and appeal as an investment destination.

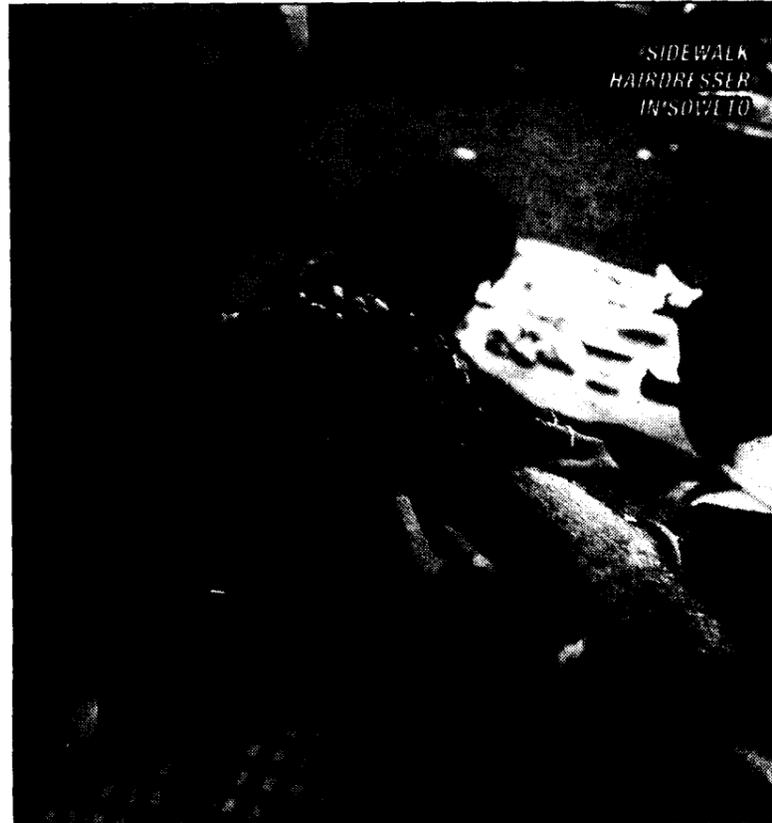
The Centre for Development and Enterprise recently held four workshops to discuss 10 years of democracy. The workshops included policy experts, academics and the presidency; senior government officials from major national departments; prominent business leaders; and an informal "town meeting" in Soweto. The discussions produced a wealth of information and insights. They also raised some important challenges for the future:

■ Unemployment has grown over the past 10 years and is now about 30% of the workforce. According to government, the economically active population grew 35%, three times faster than the rate of job creation. Why is this not the burning question of national politics? An expanded public works programme — even if it can get to significant scale — is a stop-gap measure. What is missing is how we intend to change the dynamics of the South African labour market, job opportunities and climate for investment and entrepreneurship so as to build a truly inclusive economy in the next decade.

■ Have we chosen the right path to higher growth? Since the early 1990s SA has followed a high-wage, high-skill approach to employment and growth. The labour law regime has increased the stability of the formal economy, but this has come at a price for the wider society.

The architects of the labour relations system argued that low-wage, low-skill jobs should move to SA's neighbouring states. Not only is this happening (textile firms from Bloemfontein moving to Lesotho) but, much more importantly, these kinds of low-skill jobs are being created in massive numbers in other regions of the world. SA is not a competitive environment for these businesses.

Is this the right approach for a country like ours? What does international experience tell us is the most effective and sustainable way of improving the living conditions of millions of poor people? Isn't a job a better approach than a social grant? What is our strategy for



moving to a dramatically higher level of inclusive growth in the next 10 years?

■ Can SA sustain what is probably the developing world's most generous welfare state? During the past five years, the number of people receiving social grants has grown from 2,6-million to more than 7-million. State expenditure is increasing at a time when improvements in tax collection are tapering off.

Expanded social security can only be funded by increasing the budget deficit or raising taxes, both of which would be undesirable. In the medium to longer term the only sustainable way of financing social security is to make the economy grow much faster. As jobs are created, the need for welfare spending will decrease. Again, this points to the urgent need to formulate a much improved approach to the central issue of economic growth.

■ What is the best route to empowering millions of black South Africans? The focus of most black economic empowerment is on big equity deals in the "commanding heights" of the economy. What are the benefits and costs of this approach? How does it compare with

other routes to providing opportunity for black South Africans — for example, a far higher rate of economic growth?

Is our current empowerment strategy the best approach for this country and its long-term future? SA needs black millionaires but, more importantly, it needs many more businesses that will spread wealth and independence throughout black SA. What we need is to build a truly inclusive economy — including a million more South Africans in the economy every single year. How are we going to make that happen? Hundreds of thousands of jobs are unlikely to be created by billionaires, but rather by small, often family owned businesses, whose proprietors complain they are stifled by regulation.

■ The challenge of the "townships": To what extent has the decade opened new opportunities for young urban black South Africans? Have conditions and opportunities improved in Manguang, Mdantsane, Winterveld and other places in urban SA? How do we ensure Soweto and Orange Farm are more effectively linked to the rest of the Johannesburg urban region? What are their potential roles in the growth of smaller enterprises?

Transforming the townships and informal settlements into places with a local business culture of small companies of electricians, building maintenance teams, specialised security service providers, information technology service providers, software consultants, caterers and so on, as opposed to an army of roadside hawkers, is a key economic and urban priority. There is a growing feeling that entrepreneurial activity in many townships is on the wane. If this is the case, what is causing it?

■ How are we going to improve the quality of education for black South Africans? Although SA has succeeded in expanding access to schooling for black children; our ability to provide sound education in those schools has not improved, and might even have declined. Most South African schools are failing. According to official statistics, the average reading and writing score in grade 3 is 39%, average maths score 30% and close to 60% of pupils are reported to drop out before matric. Yet SA spends a higher percentage of its gross domestic product on education than almost any other middle-income developing country.

It is clear that "more of the same" is unlikely to work. When we think of education for the poor, why don't we use more incentive-based systems such as vouchers, rather than expecting the state to continue to provide all services itself? If monopolies don't work in other aspects of national life, why do we think they will work in education? (or health?) We have choice for the middle and upper classes, why not for the poor?

■ What social and political roles should business play over the next 10 years? How can it be a constructive partner in SA Incorporated, but retain enough of its independence to promote its own vision of how this country can become a great African success story? Does it still conduct discussions with government in an overly polite tone, to the point of not conveying its views effectively on issues related to economic growth?

Does business sometimes allow itself to be co-opted onto an agenda that undermines its own interests in higher economic growth for SA?

Alternatively, have business leaders really appreciated the political cost of the economic path that government has chosen? And have they thought strategically enough about the role that private sector leadership and resources can play in helping government to defend this approach?

■ Bernstein is director of the Centre for Development and Enterprise.

