The role of Government in Creating an Environment for Economic Growth and Private Sector Development (*Zwelinzima Vavi, General Secretary, COSATU) – May 2006*

It is rare for a trade union leader to be invited to speak to our class enemies. This indicates changing times and growing maturity by South Africans in general and business and the labour movement in particular. Since I am a guest, you must exercise tolerance, because today these ideas you sometimes see in the press or policy documents will be communicated directly to you.

Let me start with what most of you will agree with. Economic and social development requires a private sector that is willing and that has capacity to engage. Stability in any society requires a strong developmental state, a strong business sector that is united and largely speaks with one voice, a strong trade union movement, strong civil society and a genuinely independent press.

The birth of CHAMSA formed part of this important process to ensure a more coherent voice for business. COSATU needs a strong counterpart to negotiate with. Fragmentation of any major institutions or stakeholders leads to chaos. We much prefer open debates that take into account the needs of all our people to lobbying by the rich and powerful behind closed doors. **Only open engagement can ensure policies that reflect the realities of our country as well as the needs of key stakeholders.**

We have been asked to speak about the role of the private sector and the state in economic growth. But we must first discuss what kind of economic growth we must achieve in this country. The fact is that South Africa can no longer afford the inequalities of the past. **Rather, as ASGI-SA indicates, we must ensure shared growth, or we will not have any growth at all in the long run.**

As we all know, South Africa has a long history of unshared growth under colonialism and apartheid. The legacy persists to this day. According to the official Labour Force Survey, almost three quarters of South African households are living below the international poverty line. That line is usually set at two dollars a day per person, or about R1500 a month for a family of four. **High unemployment and low pay are the main causes of poverty.** Using the broad definition of unemployment, two out of five South African workers can't find a paying job. Just over half of all workers – that is, people who count as employed – earn less than the international poverty line.

Sometimes we hear businesspeople complain that South African workers are overpaid. Well, I'd like to see anyone in this room survive on R2500 a month – the median income for formal workers in South Africa. And many workers earn far less. For instance, the median income for farm and domestic workers lies well under R1000 a month. Indeed, the share of salaries and wages in the national income has fallen sharply since 1993, from 51% of the national income to 44%. That in itself shows that most of the gains of growth since the transition of democracy have gone to business, not to workers and the poor. This is not a sustainable trend.

Mass poverty and unemployment result above all from two factors. First, centuries of colonialism and apartheid deprived the majority in order to create a cheap labour force. These long years of oppression left many of our people without capital, land, skills or access to infrastructure, financial and retail networks. They cannot by themselves set up new economic activities on an adequate scale. Meanwhile, the formal sector has seen increasing capital intensity, with the number of jobs created as the economy grows declining steadily for the past thirty years. Even since 1994, growth has concentrated on minerals, heavy chemicals and auto. Two thirds of our exports are still metals and minerals. Meanwhile, we have lost hundreds of thousands of jobs from gold mining, the public sector and manufacturing. As a result, growth in formal employment has remained well below the expansion in those seeking paid work.

Inequalities of this type are unsustainable. No society can survive in the face of the resulting mass discontent, social unrest and crime. No economy can hope for sustained growth or prosperity when domestic markets are limited by mass poverty and unemployment. It is for this reason that the RDP argued that the critical challenge for all of us is to transform growth to ensure it benefits the majority of our people. **The key elements in any development strategy, as ASGI-SA reiterates, must be to create**

employment on a massive scale, to meet the basic needs of our people at a cost they can afford, and to diversify the economy and exports.

In these circumstances, the state must drive a development strategy that will ensure growth benefits the majority of our people. It cannot hope to remedy underlying economic inequalities only by improving government services. Nor will free markets alone spontaneously bring about equitable growth in the face of the legacy of apartheid. **This is why COSATU, like the rest of the tripartite alliance, remains committed to establishment of a developmental state. Above all, that means a state that can mobilise key stakeholders to achieve the common aim of shared growth.** The process must start by prioritising employment creation on a mass scale, as the critical component of any strategy toward more equitable growth.

This developmental vision cannot stop at BEE in the narrow sense, making the rich more representative without addressing the suffering of the poor. COSATU has demanded that BEE benefit workers and the poor, not only through employment equity and skills development, but by doing much more to support employment creation. Key steps would include stronger incentives for local procurement and investment in the BEE Codes of Good Practice. To restructure the economy toward equitable development, the state must be able to co-ordinate all its activities around key priorities. Its tools to this end should range from infrastructure development to the development finance institutions to education and health.

The state must also ensure an appropriate and expansionary macro-economic policy stance. Industrial policy cannot succeed if tight budgets and excessive interest rates cut growth to near zero. We saw how budget cuts and high interest rates in the late 1990s, under GEAR, slashed growth to well below 2 per cent a year. In this context, we are concerned about the failure to take seriously the threat of the overvalued rand. The high rand rests, above all, on huge speculative capital inflows. Between 2000 and today, investment in equity, mergers and acquisitions has risen from virtually nothing to over R60 billion.

This capital inflow is driving a huge balance of payments deficit, now running at around 5% of the GDP. It also adds dramatically to the instability of our economy, since a hiccup in world financial or commodity markets can lead to an equally sudden outflow. The experience of capital flight from Asia and Mexico in the 1990s points to the real dangers. That is why COSATU has called for urgent measures to reduce short-run speculative inflows through tax and exchange-control measures.

We are pleased that CHAMSA has taken on the task of discussing how business can contribute to growth and development, as well as how the state can guide business to that end. Clearly, this is a critical relationship in any modern economy.

In your discussions, however, it is also crucial that you take into account the need to look at the role of other important stakeholders, and above all the crucial importance of empowering all our people, so that even the poor and marginalised begin to have a voice in the economy. Development and shared growth will never come from an exclusive partnership between the state and business. Rather, it must mobilise all our people to create an integrated, equitable and dynamic society and economy.