Economic Transformation Beyond 2010: Short-term Remedies and Long-term Strategies

A conference hosted by the Institute for Justice and Reconciliation in partnership with The Sunday Independent

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Contents

The Thematic Context

Even though the South African economy returned to positive growth during the first quarter of 2010, it is clear that its first recession in 17 years has been a setback for progress towards the country's longer-term economic transformation project. Some have even gone as far to suggest that critical gains have been reversed.

A cursory comparison of key international post-crisis figures may at first glance suggest that South Africa emerged relatively less scathed from the crisis than several other developing and developed economies. While its recession was brief, the contraction in GDP growth more muted, and rescue measures less pronounced, the crisis has once again exposed some of the country's key developmental vulnerabilities. From this perspective, the adverse impact may have been disproportionate to that experience by its peers.


Jan Hofmeyr and Dr Vusi Gumede during Panel 1

The country has been most visibly exposed in the knock-on effect that the slow-down in production has had on the country's fragile work force. While several states experienced larger GDP decreases than South Africa, their labour markets have been more resilient in weathering the circumstances. Much of this can be attributed to the country's industrial make-up and the shortage of skills to meet its needs.

The short-term response

The short-term challenge is clear. Fewer employed workers that are able to sustain themselves and their families will result in, and will continue to contribute to, greater dependence on the country's social welfare net. While such expectations are likely to grow, the means to alleviate material pressure have become scarcer in a year that saw the country's predicted budget deficit widening to levels that have not been seen for some time. Inflation, if not contained within a reasonable band, may even raise the spectre of cuts in social assistance to the poor and marginalised.

An escalation in violent protests relating to basic needs and services in recent years point to the profound effect that this has had on the human security of millions. Given the lag that generally occurs between economic recovery and the hiring of new workers, the effects of this crisis are likely to be with us for some time. Several of those that have work, as the recent transport sector strike has shown, have engaged in industrial action to counter the eroding effect that difficult times have had on wages. Fears about issues of human security, and such public articulation of this anxiety, will therefore continue to test the abilities of various levels of government.

The long-term perspective

The longer-term challenge is the structural transformation of the economy in a way that will avert the vulnerabilities that ordinary people are presently being exposed to. Over the past 16 years this has been an ongoing project, which required flexibility and continued modification to adapt to an ever changing global environment.

In the wake of the 2009 general elections, and in the midst of a global recession, a new political guard, representing the post-Polokwane power shift within the African National Congress, took the reins of government. The composition of the new Zuma administration, which has been more inclusive of the organisations comprising the tripartite alliance, also suggested the possibility of a more decisive change in emphasis from the economic policies of the Mbeki government. The architecture of the new administration also looked decidedly different, with the notable addition of Departments for Economic Development and Monitoring and Evaluation, as well the provision for a National Planning Commission (NPC). These entities, together with the Department of Trade and Industry, are being seen as pivotal to the structural transformation of the economy. Yet, they are new – the inaugural meeting of the NPC only took place in May this year – and inevitably a degree of uncertainty still exists about the exact role that each will play, and the weight that they will carry in terms of the shaping of economic policy.

A practical vision

While several forward-looking designs, such as the Industrial Policy Framework and the National Human Resource Strategy, have been announced in recent months, more clarity is needed on the broader vision and developmental targets within which they are located. What kind of economy do we aspire to, which are the developmental targets that we need to meet, and more concretely, how will they be achieved and where will the buck stop in terms of accountability? Critical for the present is also to understand how current measures fit into the long-term perspective. Much of the uncertainty may have arisen from the confluence of circumstances. The Zuma administration had to respond without delay to a global crisis, while it was expected at the same time to articulate its longer term views on the economy. In order to create unity in purpose, however, it is critical that the vision, measureable targets, and strategies are clearly outlined sooner rather than later. With the threat of a European sovereign debt crisis looming, such a perspective may be of critical importance to guide the country through this potentially difficult period.

Conference objective

Against this, the conference aimed to clarify and outline the national vision and targets for economic transformation, but secondly also contextualise current interventions and recently announced national strategies within this context. It has done so by focusing on three thematic areas, namely: the governance of the economy, poverty and inequality, and skills and education.

Conference Programme

08.30–09.00	Registration	
09.00–09.10	Welcome	Dr Fanie du Toit (exec. director, IJR)
09.10–09.30	Introduction to Conference Theme	Jan Hofmeyr (IJR)
09.30–11.00	Panel 1: Poverty and Inequality	*Moderator:* Prof. Vusi Gumede (UJ) *Presenter:* Dr Alan Hirsch (Presidency) *Respondent:* Mr Ebrahim-Khalil Hassen (private consultant)
11.00–11.15	Tea	
11.15–12.45	Panel 2: Governance of the Economy	*Moderator:* Mr JP Landman (priv. consultant) *Presenter:* Mr Kuben Naidoo (National Planning Commission Secretariat) *Respondent:* Mr Lumkile Mondi (IDC)
12.45–14.00	Lunch	
14.00–15.30	Panel 3: Skills and Education	*Moderator:* Mr Russell Wildeman (IDASA) *Presenter:* Mr John Pampallis (DHET) *Respondents:* Mr Graeme Bloch (DBSA) Ms Makano Morojele (NBI)
15.30–16.00	Summary Remarks Conclusion	Mr Jan Hofmeyr (IJR) Dr Fanie du Toit (exec. director, IJR)

Panel 1: Poverty and Inequality

Both poverty and inequality have been structurally entrenched in the South African economy. Their eradication is critical to the achievement of a more just society. This panel reflected on the existing levels of both, the impact of the global economic crisis, and the degree to which current policies are effective in pushing back developmental deficits.

Panel chair: Jan Hofmeyr (IJR)
Panelists: Prof. Vusi Gumede (University of Johannesburg)
Dr Alan Hirsch (Presidency)
Mr Ebrahim-Khalil Hassen (private economic consultant)

Key insights

- Poverty levels have decreased marginally, while income inequality has continued to grow since the country's political transition.
- Inequality within the country's historically defined population groups has expanded, but so has the gap between groups.
- Poverty remains highly racialised.
- Living conditions for the most affluent 30 per cent have improved significantly, and to a lesser degree so for the poorest 30 per cent that has benefitted from government social transfers since the country's political transition. The middle 40 per cent (low-paid workers without government support) may have experienced the least improvement in terms of their material conditions.
- The nature of economic power relations stands in the way of a more equitable society.
- There needs to be a much stronger public and private commitment to provide opportunity for people to determine their own economic prosperity.

In the first presentation of the day, Prof. Vusi Gumede used data emanating from the National Income Data Survey (NIDS) to show that although poverty levels have decreased since the first comparative measurement in 1993, the decline in percentage terms has been marginal, and in real numbers there has in fact been an increase. A striking feature of the data has been the fact that poverty remains by and large a racialised phenomenon in South Africa, with a disproportionate percentage of black South Africans falling under the poverty line. A comparison between the country's Human Development Index (HDI) figures of 1980 and 2007 show a slight improvement from 0.65 to 0.68. Yet, a disaggregation of these figures in racial terms, according to Gumede, show that for the majority of South Africans from marginalised backgrounds, the picture would have remained largely unchanged. A similar picture emerges when it comes to levels of inequality. While in-group inequality has increased significantly over the period measured, between-group inequality also continued to grow during the same time. Gumede believes that while we are simply assuming South Africa's status as a developmental state, the question is whether we are indeed one. In the light of the NIDS data that were presented, he suggested that instead of referring to the country as a developmental state proper, the argument can be made that 'a developmental state in the making' may be a more appropriate description of where the country currently finds itself in its development trajectory. What the data point to is that South Africa may be making developmental progress, but not as fast as it should. Much more, Gumede believes, is necessary to push back the boundaries of poverty and underdevelopment. In conclusion he expressed specific concern that the slow pace of change continues to affect disproportionately those that were historically marginalised. As a consequence little headway is being made as far as racial redress is concerned, and as such it holds back the country from moving away from its divided past.

Dr Alan Hirsch responded to Dr Gumede's presentation by adding that the NIDS data have indeed made a significant contribution to the understanding of poverty and inequality in South Africa. He noted that while South Africa experienced strong growth between 2000 and 2006, this period also saw a marked increase in inequality. Ultimately, according to Hirsch, the evidence suggests that more equal societies are in a better position to achieve consistent and sustainable growth over time and, as South Africa's vulnerability to the global economic downturn has shown, poverty and inequality remain the primary obstacles towards achieving a higher trajectory of growth.

In his opinion unemployment presents the most significant challenge to a more equitable South African society. Hirsch noted that it is possible to divide South Africa into three broad income groups, namely the top 30 per cent, the middle 40 per cent and the bottom 30 per cent. Conditions for the top 30 per cent have definitely improved in recent years, and to a lesser extent for those that find themselves in the bottom 30 per cent, who gained from specific social transfers. He, however, believes that it is the middle 40 per cent that gained the least during this period, since they are often not fully employed and often do not qualify to be recipients of social transfers from the state. In essence, when addressing

Dr Vusi Gumede presenting on the challenges of poverty and inequality

poverty, it is therefore the plight of the bottom 70 per cent that needs to be considered. In the light of the above Hirsch put forward the hypothesis that those who had assets, such as property, shares, and skills at the beginning in 2000 have benefitted greatly, due to the high premium on skills, and the significant increase in property values over this period. Fortunately over this period more people obtained employment and, as a result, there was also some growth in the middle class. He, however, added that unemployment numbers do not reflect the full extent of the problem. It is also critical to look at the nature of the jobs that are being created and the extent to which they are vulnerable to cyclical boom and bust periods. While it is therefore critical to create jobs, it is also important to create a new growth path that would make growth more sustainable and those who participate in the economy less vulnerable. Dr Hirsch referred to some of the proposals in the latest OECD report on South Africa, and several macroeconomic and microeconomic interventions that could be implemented towards this end and around which some consensus already exists.

In the last contribution to this panel, Ebrahim-Khalil Hassen argued that the primary developmental challenge in South Africa is to shake up the country's opportunity structure. He noted that the country's current development model is largely premised on ideas of growth and the redistribution of resources that were conceptualised ten years ago and are now just being tweaked. Unfortunately these strategies fail to properly address the persistent inequality of power within society. For Hassen it is therefore critical that the question of power in the economy should be confronted. Redistribution is therefore critical, but should not primarily be understood in terms of material resource transfers, but also in terms of the ability of ordinary South Africans to determine their destinies themselves. A developmental state, according to Hassen, will in this regard have a critical role to play in four areas.

It will, firstly, have to take on an active role in the creation of employment through public employment programmes that will include the appointment of public servants and the expansion of public works programmes, particularly as the latter relates to community service workers. The challenge would be not to increase the state's salary bill without commensurate increases in public services and the productivity thereof. Secondly, government will have to think more creatively around the promotion of small businesses. While Hassen believes growth in the number of small businessmen and women will not necessarily stem the unemployment tide, their entities do create jobs and can make a difference. In this regard he made a strong plea for further tax breaks for small, medium and micro enterprises (SMMEs), and also implored banks to offer more favourable rate structures to emerging businesses. Hassen also suggested that we need to remain vigilant about uncompetitive practices at different levels of the value chain which still impede upon the ability of smaller players to enter markets that have traditionally been monopolised. The third area where the state can play a more active role is in assisting poor people to build an asset base. While social grants provide people with the means to survive, the danger exists that a longer-term dependency may develop from this means of state support. He suggested that more needs to be done to tackle the issue of the intergenerational transfer of poverty, and cited Thomas Paine's suggestion that the only way in which such inequality can be broken is when people are provided with the equivalent of an inheritance. In this regard he raised the suggestion of developmental accounts by which government opens an account on behalf of a child at birth and that the proceeds then get paid out at a certain age. Lastly Hassen made reference to the continuing need to invest in education and healthcare. He did, however, caution that such expenditure needs to be targeted at the most efficient use of resources.

The discussion that ensued started with a question by Jan Hofmeyr, who moderated the discussion, as to whether the absence of an official poverty line in South Africa does not provide the scope for a 'politics of measurement' by which different stakeholders can use different yardsticks to measure development and pursue their agendas. Dr Gumede responded that it is possible to reach conclusions about the state of poverty in any country today, provided there are data. While particular thresholds may differ, the quality of the data allows researchers to make conclusions or not. Scientifically generated data will therefore give researchers a general idea of where the country finds itself. Dr Hirsch added that while the issue of an official poverty line has become politicised, it does not actually matter, as long as it is possible to measure trends.

From here the discussion reverted back to the issues of redress and the role of power relations. Mr Hassen pointed to visible indications of power relations in the body politic and made specific reference to years in which there were cuts in health and education spending, and yet government could find money in its coffers to finance the country's controversial arms deal. On a different level he pointed to the lavish lifestyles that ministers enjoy and the exorbitant costs that they continue to incur, despite the country's acute levels of poverty, and regardless of the fact that the country found itself in the midst of pressing economic times. This he described as a 'rupture in the relations between citizens and government' and leaders, but because of their power they get away with it. In the development of public policy these skewed relations are also prevalent and he used the very humble targets of the BEE Mining Charter as an example. Traditional owners in this industry should be committing themselves to higher targets than 26 per cent ownership. Dr Hirsch added that the areas of redress in which South Africa has failed are fairly obvious, and that asset management is without doubt one of them. The question of land is a clear example. He did, however, note that much of the power imbalances of today should be viewed in the context of South Africa's democratic transition, which was not a revolutionary overthrow of government, but a negotiated pact. The nature of the transition has therefore been strongly influenced by power relations at the time. This is difficult to reverse, but government can do certain things about it.

The questions from the audience revolved around issues of the difficulty in implementing policies given that changes in government can impact on the sustainability of various programmes. It also becomes difficult to challenge government policies due to the agreements made prior to the democratisation of government. Dr Gumede responded by mentioning that there may have been some exaggeration in relation to the extent to which implementation has constrained progress. Such arguments, or a disproportional focus on them, diverts attention from the question as to whether there is not something wrong with the policies with which poverty and inequality have been combatted. Mr Hassen added that there needs to be a deepening of the conversation with ministries in order to improve policies that may be inappropriate.

Dr Hirsch indicated that while it is not possible to restructure the transformation bargain of 1994, there is now a society where a lot of power lies outside the state, with strong unions, companies and other powerful institutions. This raises the issue of engagement between the state and key power brokers in society, as well as the nature of agreements that can be reached regarding policy.

Panel 2: Governance of the Economy

The challenge relating to the governance of the South African economy is of a dual nature. Firstly, it needs to generate growth, but secondly it needs to do so in a way that responds to entrenched historical inequalities in society. How it does this depends on the nature of economic policy, but also on the way in which such policy is executed. The second panel of the day discussed the extent to which we have made progress in this regard, as well as the degree to which the global economic crisis has had an impact on economic governance.

Panel chair: Mr JP Landman (private consultant)

Panelists: Mr Kuben Naidoo (acting head: National Planning Commission Secretariat)

Mr Lumkile Mondi (chief economist: Industrial Development Corporation)

Key insights

- As far as most key economic indicators are concerned, the South African economy proved to be quite resilient in the face of the global economic slowdown when compared to several of its competitors.
- The impact on employment has, however been a disaster. While output fell by 2 per cent, employment plummeted by almost 9 per cent.
- South Africa should create the jobs not for the labour force it wished it had, but rather for the one that it does have.
- The objective of full employment should guide labour market policy.
- There needs to be more give and take between social stakeholders if we are to reach a national compact on growth and development.
- Political agendas should not override critical economic imperatives.
- In the light of the performance of parastatals, it is important to consider the role and limits of state intervention in the economy.

During the first presentation of the second session, Mr Kuben Naidoo, acting head of the National Planning Commission Secretariat, noted that the world economy is in a recovery stage, but that this recovery is fragile and remains potentially vulnerable. He predicted that while global growth is moving upwards again, it will not occur as rapidly as it did over the past decade. As far as his assessment of the South African economy's response to the international picture is concerned, Naidoo was of the opinion that it performed pretty well. Output fell by about 2 per cent in 2009, which is fairly low compared to some of the country's international competitors, and he estimated GDP growth of between 2.5 per cent and 3 per cent for 2010. He largely credits this performance to the government's countercyclical approach to the management of the economy. This allowed government to go from a surplus of 1 per cent in 2007 to a deficit of 7 per cent in 2009. That is a massive fiscal swing comparable to that of many developed economies. The country also had the good fortune of being in the middle of a significant infrastructure expansion programme, partly related to the World Cup Soccer event, which injected much needed funds into the economy.

The major disaster has however been on the employment side, where there was a large and disproportionate fall in employment in relation to a relatively small decrease in output. While output fell by 2 per cent, employment plummeted by almost 9 per cent. Few countries experienced job losses of this magnitude and it is important to consider why the labour market performed so poorly in what was a mild recession by South African standards. Naidoo forwarded two possible explanations for this. The first related to labour laws in South Africa, which make it surprisingly easy for employers to retrench workers during challenging times, but very difficult to lay off unproductive labour during peak times. As a result, periods of slow growth or contraction are being used to get rid of what firms refer to as the 'deadwood' in the system. The second theory is that salary increases in the run up to the recession were too high, which made employees too expensive to retain, and in the absence of measures, such as the reduction of incomes and shorter working hours (as has been the case elsewhere), they had to be retrenched. While people in countries like Germany might have lost a third of their income, it may be a better outcome than losing 10 per cent of your workforce. In South Africa there was too little of this restructuring. With salary increases of up to 11 per cent in the South African public service, even it stopped hiring workers, in stark contrast to 2007 and 2008 when it recruited aggressively. Although he acknowledged that these theories are not based on evidence, Naidoo said that it is important to understand why South Africa lost so many jobs.

In general, public services were sustained through the recession. Critical spending on education, health and infrastructure expansion was sustained, and the country did not need to embark on massive retrenchments in the public service as some other countries were obliged to.

In the next section of his presentation Naidoo brought up the question of policy sequencing, and here he emphasised that he was expressing his personal views on the issue. He noted that there is a trade-off to be made between the decent-jobs agenda and the full-employment agenda. In Naidoo's view South Africa needs to pursue a full employment agenda, and there is no reason why the country cannot achieve full employment in a relatively short time with the right set of economic policies. This will, however, require a number of important sacrifices. He is of the opinion that decent jobs would accrue due to a rise in productivity, and a rise in productivity would accrue to better on-the-job experience and better skills and education. He cited Ricardo Haussman, who noted that South Africa is trying to create the jobs for the kind of labour force it wished it had, rather than for the labour force it does have. There are approximately four million low-skilled or unskilled people, which make it important to think more creatively about jobs for the unemployed. Full employment should be prioritised over any other policy objective, and from there we should move on to raising productivity and income. There is a significant depreciation of human capital if a school leaver sits around idly for years before obtaining employment for the first time. It needs to be easier for them to access the employment market and to capitalise on the academic and life skills that were obtained in the schooling system.

In terms of the macroeconomic debate, Naidoo indicated that, in his opinion, for the first time in many years there is an opportunity to put a social compact on the table. He noted that most people would agree on the need for lower interest rates and a lower exchange rate, but once again there need to be trade-offs. The achievement of this will, in his opinion, require wage moderation, but also tighter fiscal policy. Such a compact may take the form of the Treasury and the Reserve Bank agreeing on the need to do more to weaken the exchange rate. Both will need tighter fiscal policy that would enable the Reserve Bank to lower interest rates, which will help to weaken the Rand and make it more competitive. On the other hand there needs to be wage moderation, which is necessary for upholding the equation. Failure to do so would, according to Naidoo, continue to push up inflation and, consequently, interest rates in the medium to long term. These four elements – namely a tighter fiscal policy, wage moderation, a weaker exchange rate and a lower interest rate – could form the cornerstones of a compact that could drive economic recovery.

As far as microeconomic issues are concerned, he expressed his personal preference for wage subsidies to encourage firms to increase employment. He is particularly supportive of the Treasury proposal to introduce a youth wage subsidy, not only because it addresses youth unemployment, but it also limits the social costs of youth not being actively productive in contributing to the economy. According to Naidoo it is incorrect to claim that such a policy would lead to the lowering of wages. In essence it compensates an employer for the shortfall that will initially exist between the wage of a new entrant to the job market and his or her productive capacity. At some stage, on-the-job training will result in an increase in productivity and the subsidy can also end.

Lumkile Mondi started his presentation by noting that South Africa was, from a macroeconomic perspective, in pretty good shape when the global economic crisis hit. Pre-crisis, the economy had done well, and this was largely due to the clear policies and firm leadership of the Mbeki administration. Here Mondi also made specific reference to the healthy surplus in 2007, which offered the country more fiscal space to maneuvre when the global economy took a turn for the worse. Whether these policies were popular or not is another matter, but their nature and objectives did not lack any clarity – a quality that is highly valued during periods of volatility. But importantly, he also reminded participants that, already prior to the recession, South African industry started to curb its capital expenditure in response to the shortage of power. Industry and development-finance institutions (DFIs) were approached by Eskom and government in 2007, during the first power outages, to reduce energy consumption and to consider the ways in which they could cut energy consumption. There was therefore already a gradual slowdown in the economy, due to domestic factors, prior to the time that the full force of the global meltdown hit this country.

Mr Kuben Naidoo, acting head of the National Planning Commission Secretariat, responding to questions during Panel 2

While the Treasury did an outstanding job in shaping an economic environment that made it conducive to growth and, due to countercyclical planning, able to absorb much of the recession's impact, weaknesses in other spheres of governance detracted from government's overall response to the global crisis. In Mondi's opinion government's strategy to counter the impact of the crisis was insufficient and he speculated that at the time much of this may have had to do with the fierce succession battle within the ruling African National Congress, which may have deflected attention from the critical issues that were facing the country at the time.

The Presidential Task Team that was instructed to formulate a response to the crisis proposed two main strategies. The first intervention was a retraining scheme that the Department of Labour introduced, which in Mondi's opinion, was poorly assessed. The second response was an Industrial Development Corporation (IDC) scheme to the value of about R6.1bn, which had been introduced to support companies that were struggling as a result of the recession. According to Mondi, only about R1.8bn of this has been properly assessed. The limited impact of these measures, he believes, raises critical questions about the policy response to this crisis and the extent to which it contributed to the saving of jobs.

In response to the question of employment, Mondi remarked that it presents several challenges and sometimes there is more to its underlying dynamics than meets the eye. On the one hand he referred to the rapid increase in wages in sectors where there are shortages of skilled workers. On the other, an oversupply of low-skilled and unskilled labour keeps wages low at this end of the employment spectrum. This problem is partly the result of inferior apartheid education and the failure of the current system to produce the skills that match the requirements of our economy. Yet, migration from elsewhere on the continent and the willingness of many migrants to work for lower wages has added another dimension to this sector of the labour market. Not surprisingly an increase in such movements can be expected, especially during periods of economic contraction.

Mondi suggested that there is a need to look deeper into the various labour market statistics to understand what is happening. The loss of jobs during the crisis speaks to the kinds of jobs that South Africa created prior to the crisis, but also to the cost of labour in the country. Linking to Kuben Naidoo's discussion in the previous presentation on the debate between 'full employment' and 'decent jobs', he expressed the opinion that the notion of 'decent jobs', as it is being talked about by the left, is a misnomer. He noted that the country's labour problems will not be solved by creating white collar jobs for blue collar workers. Agreeing with Naidoo, he suggested that the state needs to focus its policy interventions on the creation of full employment. Jobs, regardless of their level, make a difference and may mean the difference between starvation and survival.

At the conclusion of his presentation Mondi referred to the role of the state in the economy. While it has an important responsibility to provide an environment for growth and development, inefficiencies in the system of governance are slowing the country down. In this regard he made particular reference to the management of state-operated enterprises, such as Transnet and Eskom, given the critical role that they can potentially play as catalysts for development in South Africa. Their poor governance and the absence of clear leadership have become significant obstacles to progress, as power blackouts in the case of Eskom have so palpably demonstrated.

Questions from the audience, in response to this session, revolved largely around issues of state capacity, particularly at the provincial and municipal levels of government; weak leadership; the role of DFIs such as the IDC, in promoting growth; and the broader restructuring of the global economy. On the issues of capacity and leadership, Naidoo noted that government has been trying to bring in people from outside the bureaucracy to bolster capacity and to tap into outside expertise, but that this cannot be taken to the extent where government eventually becomes outsourced. As far as local government capacity is concerned, Mondi suggested that since there is a difference between the skills required for activism and those required for governance at a local level, activists do not necessarily make good local-level bureaucrats. The awarding of jobs on this basis, as has been witnessed in certain communities, does therefore have profoundly negative long-term consequences. People on the ground are desperate for results and they want the best civil servants possible to deliver on government's developmental promises. Naidoo added that political accountability at the provincial level is a significant problem. In this sphere specifically many politicians feel more accountable to their parties rather than to their constituents, which has adverse consequences for effective and transparent governance.

On the role of DFIs, Mondi mentioned that the IDC and DBSA (Development Bank of South Africa) were both institutions that were founded under apartheid, with particular apartheid mandates. When they were taken over by the democratic government in 1994, it was not certain what kind of role they would play, and deep into the new dispensation their new mandates have remained fairly vague. A few years ago the National Treasury embarked on a DFI review, but the findings of the report were never implemented. As a result, the IDC and similar DFIs continue with their existing mandate, albeit not on a racialised basis. He did express the need for a thorough rethink of their role in the economy and a greater alignment between their different functions. Mr Naidoo added that although DFIs can play a positive role in the economy and in public sector restructuring, it is not realistic to expect DFIs to lend very cheaply and take inordinate risks.

On questions relating to the state of the global economy, both panelists agreed it makes little sense for the country to try and delink from it in any way. It is, according to Mondi, the responsibility of states like ours to engage with global institutions about a fairer international distributional regime. Naidoo echoed this sentiment and suggested that while the global economy may in various senses be an unjust place, poor countries have gotten rich by engaging with it. It would be incumbent upon South Africa not to disengage, but rather to develop the skills to better navigate this environment.

Panel 3: Skills and Education

The link between South Africa's dysfunctional labour market – characterised by an oversupply of low-skilled and unskilled labour, and a shortage of skilled workers – and an underperforming education system is beyond debate. Ultimately, therefore, policy on education and skills development has far-reaching implications for the country's longer-term development trajectory. This panel engaged with the current state of both areas and discussed potential future policy directions.

Panel chair: Mr Russell Wildeman (programme manager: Economic Governance in Africa at Idasa)

Panelists: Mr John Pampallis (ministerial advisor: Department of Higher Education and Training)
Mr Lumkile Mondi (chief economist: Industrial Development Corporation)
Mr Graeme Bloch (education specialist: Development Bank of Southern Africa)
Ms Makano Morojele (director, National Business Initiative)

Key insights

- Institutional inefficiencies within government have stood in the way of devising a comprehensive human resource development strategy by educational institutions, training authorities and industry. The new education and training dispensation, which saw the division of the Department of Education into the Department of Basic Education and the Department of Higher Education and Training, aims to remedy these shortcomings.
- Poor education is still located in poor areas, and hence those that were marginalised in apartheid South Africa remain marginalised in post-apartheid South Africa. This requires that the system not only expand quantitatively, but also qualitatively.
- Given the plethora of panels, authorities and boards within the education and training environment, it is possible for one entity to hold a broader transformation process to ransom. Government therefore needs to be bold and assertive in navigating policy through these structures, even if it makes the relevant department temporarily unpopular.
- The introduction of multi-sectoral task teams to deliberate on the future of FET institutions gives all participants a stake in their success and should therefore be welcomed.
- There is a critical need for accurate, up-to-date education data to help diagnose the problems and plan for the future.
- South African education and training institutions should strive for excellence, not to be on par, or to satisfy narrow ideological objectives.
- Education stands central to a broader national vision of the kind of society that South Africa wants to become.

Mr John Pampallis began his presentation by noting that there are currently about three million South Africans between the ages of 18 and 24 who are not in training, education, or employment. While this figure constitutes a significant proportion of the country's unenviable unemployment level, its implications go far wider than the South African labour market. It has, according to Pampallis, also far-reaching social costs that are complex and cannot be measured by a simple statistic, such as that for employment. As such, the impact of an education system goes far beyond the classroom and the labour market. Pampallis, therefore, believes that even though the extension of education and training to more South Africans will not be an ultimate cure for employment, it forms an indispensible part of tackling a wider set of problems.

He indicated that during the first years of the new democratic state, certain institutional arrangements impeded on government's ability to deliver on its mandate to develop the country's human resources. In the run up to the new dispensation, the ANC envisaged a single Education and Training Department and the establishment of a National Qualifications Framework (NQF). After the elections, an NQF was established but the responsibilities of education and training were split between the national departments of education and labour respectively. There were structural impediments to effective cooperation between the two, which often became the source of significant friction. One clear example of this was when it took close to seven years for the two departments to agree on what should be done with the review of the NQF that took place in 2001. The inefficiencies created by these institutional tensions made it difficult for government to respond comprehensively to the country's education and skills needs. This resulted in situations where money was, for example, going unspent in the national skills fund, while at the same time colleges and universities struggled to find funding.

The lack of cooperation resulted in weak coherence between school and post-school training institutions. He proceeded to outline some of the major undesirable outcomes of this situation. Sectoral education and training institutions (SETAs) opted to make use of private service providers instead of further education and training institutions (FETs). According to Pampallis, the quality of these private providers was varied at best. Another example has been that of students at tertiary institutions who found it difficult to find employment, but SETAs, with contacts in all sectors, have felt little obligation to assist. He mentioned that there are literally hundreds of civil engineering students who cannot complete their BTech degrees because they cannot find learnership placements in a sector that is highly in need of skilled graduates.

The split of the Department of Education into two entities (Basic Education and Higher Education and Training) during May 2009 was a direct response towards addressing these disjunctures. The Department of Basic Education was mandated with basic education and literary training for adults, while the creation of the Department of Higher Education and Training provides the opportunity to shape a coherent post-school education and training system that can meet the aspirations of people while responding to the demands of the economy. Pampallis, however, stated that the problems in the management of skills and education are not restricted to the problem of institutional alignment alone. Each post-school subset has its own challenges, such as insufficient placements in colleges and universities, while the actual quality of education and training is in need of serious improvement. Further challenges include inappropriate curricula, lack of student support services, lack of teaching materials and insufficient educational infrastructure. Importantly, many tertiary institutions find it challenging to develop partnerships with businesses and other funding agencies.

In conclusion Pampallis noted that, despite 16 years of restructuring the post-apartheid education system, the strong and weak educational institutions are still, by and large, located in the same areas as they were under apartheid. In this regard the legacy of the previous political dispensation is still visible in the education and training landscape. In order to respond to this challenge, Pampallis outlined three main strategic thrusts of his department. Firstly, the system needs to be expanded drastically. Reforms would include the expansion of the university system and the FET sector; the revitalisation of the apprenticeship system; and increasing adult education placements. Secondly, there needs to be an improvement in the quality of education and training, and steps will be taken to introduce more training to educators, and thirdly, more effort must be made to find synergies and break down silos that may exist between education and training institutions, but also between these institutions and the different employment sectors in the economy.

Ms Makano Morojele in her presentation welcomed the new institutional arrangement that has separated the Department of Education into two entities. In her opinion the creation of the DHET should not be seen as a merger between the Departments of Education and Labour, but rather as a new entity that creates the opportunity for change and a coherent response to the problems relating to the intricate challenges that the country has to adress in post-school education.

She did note at the outset of her presentation that it is important to look beyond structure. At this early stage of the new dispensation, many challenges lie ahead, particularly as they relate to the development of mandates and their operationalisation against the background of limited staff compliments. For her it is, however, important that a vision should emerge from these entities. Given

Panel 3 chairperson, Mr Russell Wildeman, Ms Makano Morojele (National Business Initiative), and Mr Graeme Bloch (DBSA Education Expert)

the plethora of panels, boards and fora within the education and training sector, it has been difficult in the past for the Department to navigate these spaces without being held ransom by one or more of these. Her advice to the DHET is therefore to be decisive and bold in their decision-making, even if this could cause the minister to be unpopular in certain circumstances. She proceeded to list a number of these critical decisions that have to be made. Her first example is that of the National Curriculum (Vocational) that was introduced in 2007. In 2009 the first cohort graduated, with an abysmal pass rate. When only 1 000 out 26 000 complete the course it is incumbent upon the Department to pause and ask whether there is any sense in continuing with it in its current form. A second example is that of differentiation as it applies to FET colleges, and she added that it may be necessary to give stronger recognition to the realities of where colleges are located in order to enhance their ability to respond to the circumstances in these areas. Moreover, she believes that this will allow the DHET to be in a better position to determine the kind of support that these colleges need. The needs of a college in Butterworth would surely be different from one in Pretoria, and this reality needs to get recognition in official policy.

Morojele proceeded to reflect on the FET reform process and noted that the director-general has instituted task teams that brought together business, organised labour and government to deliberate on the immediate solutions that must be put in place to reform the system, but also the longer-term steps that have to be taken in this regard. This does create a framework for meaningful partnership where interested parties become stakeholders and don't sit and wait on the margins, only to complain when policy drafts are released for discussion.

Going forward, the need for data is critical. The country needs more recent and robust data to diagnose current problems upon which it can base its future projections. In some instances the data may even be there, but there is no central hub from which data can be sourced. Monitoring and evaluation will be critical for successful implementation and Morojele expressed her delight with the fact that this practice is increasingly in evidence across government.

Graeme Bloch, the final panelist in this session, indicated that he agreed with John Pampallis on the question of understanding history in order to understand our sociology and institutions, but disagreed with him on the issue of partnerships with business. While he sees some merit in such partnerships under certain circumstances, corporate involvement should be limited to the areas where education, and not the corporate brand, is the primary beneficiary.

Bloch noted that despite the changes to the FET sector that Morojele mentioned, it is in crisis. The sector is not even beginning to produce the needed vocational education for young people. This crisis finds expression at various levels. It can be seen at the very coalface of workplace learning where capital has shown very little interest in training the people who work for it; it is evident in the limited funding that is extended towards the sector; and not least, it is highly visible in terms of the outcomes that are produced. From the perspective of young South Africans who expected opportunities from democracy, this is unforgivable. What is worse, according to Bloch, is that most of the system's victims are black and, as such, racial patterns of privilege are being reinforced.

The second key point that he emphasised is the need for South Africans to move beyond symbolism when deliberating on critical issues such as education. While it is unacceptable that the dropout rate of the education system is far too high, it does not make sense to catapult underperforming learners into tertiary institutions, when there are deserving ones that cannot make it into the tertiary system. When a learner wants to get into university, he or she must get an A. Countries stand to lose if they do not strive for excellence in a very competitive global environment.

Bloch added that in terms of the 80 per cent of schools that are not doing well, there is a need to fix them where they are. He believes that South Africans must not only strive to be on par or meet the global standard – we need to focus on being the best. This quest for excellence must be sustained, and he cited several examples where South Africans have become world leaders in their respective fields. These successes must be celebrated to inspire learners from all walks of life to achieve.

With regard to the issue of teacher support, Bloch noted that teachers are critical role-players in education reform. He agreed that much has to be done to allow them to teach to the best of their ability without being saddled with non-core administrative duties. He did, however, question whether the behaviour of certain teacher trade unions during the recent strikes was helping their cause.

The question of skills and education is by its very nature a future-orientated issue, and as a result most of the questions and comments in response to the panel related to the theme of the achievement of a common national vision. While the struggle against oppression united progressive forces towards a common goal in the past, many in the audience felt that there does not seem to be a unifying vision in post-apartheid South Africa. Several comments articulated the sentiment that if education is regarded as a nation's investment in the future, the current state of our education system raises serious questions about the country's future. The audience also brought up further issues of teacher support from government, and made reference to the teacher strike that was underway at the time of the conference.

On the issue of a national vision, Morojele responded that it is important to pursue common national objectives that can guide the country's developmental strategies that it decides to implement. In the sphere of education specifically, such vision can contribute to a more efficient allocation of funds to drive change. Pampallis concurred with the need for a greater sense of common purpose to fix the system, but noted that the diversity of South African society does in some instances make this a challenge. In this regard Bloch noted that there are positive signals that South Africans, and particularly young South Africans, are willing to take the initiative to change their futures. He cited the example of 10 000 learners who marched on Human Rights Day under the banner of Equal Education in Khayelitsha, Cape Town, to demand libraries and books to read in schools from the Department of Education. The message that these young people communicated was that they need government to lead, but that they are not going to sit back and wait for it to do so. Slowly alliances are being formed from the bottom up to address the education crisis and for him this is a hugely encouraging development.

Mr Wildeman wrapped up the final session with the remark that the achievement of greater social cohesion and broader national vision will require sacrifices from all South Africans. This is a clinical, but very necessary conversation that needs to be taking place, because no society should tolerate the levels of underdevelopment that we witness in South Africa. Yet, society continues to talk around these issues. For this conversation to start, we need political leadership that would provide the platform for the creation of a national pact. The education and skills sector urgently needs this and so does the rest of the country.

Conclusion

Jan Hofmeyr from the IJR concluded the day's proceedings by thanking conference panelists and participants for their contributions during the day's proceedings. He noted that the day's discussions underscored the critical need for further debate around South Africa's developmental objectives and the strategies it requires in order to achieve them. Based on some of the insights that were shared during the day, he questioned whether the country had been fully prepared to capitalise developmentally from conditions that were highly conducive to growth since the turn of the millennium.

While GDP expanded at respectable levels during this period, the country's persistently high levels of poverty and inequality remain far less than respectable. Even though several million workers joined the ranks of the employed, unemployment levels remain disconcertingly high. Moreover, as the global slowdown has demonstrated, the majority of workers – of which most are low-skilled or unskilled – continue to be extremely vulnerable to external shocks. Underlying this vulnerability, and no doubt also the unacceptably high levels of poverty and inequality, is the mismatch that exists between skills demand and supply. This does raise questions about the composition of the South African economy, but also about the country's human resource development strategies and the quality of education and training institutions that have to implement them. From the day's deliberations it was evident that not enough headway has been made in this regard. Importantly, in instances where potential exists, the absence of public- and private-sector incentives have quashed opportunities for emerging entrepreneurs.

Hofmeyr suggested that while the global crisis may have exposed known structural weaknesses, it has also provided South Africa with the opportunity to think collectively about how it will reverse the conditions that gave rise to such vulnerability in the first place. More importantly, the product of such deliberations should provide the platform from which the country could catapult itself into a higher growth trajectory. However, as several presenters and participants in the audience noted, this will require an inclusive process of consultation that must result in a national compact on development. The role of political leadership will be pivotal, but so too the role of civil society organisations to provide the fora for such debate. He noted that the Institute for Justice and Reconciliation strongly commits itself towards the achievement of this objective.

Mr Hofmeyr concluded the day's proceedings by thanking the Institute's funders – particularly the Royal Embassy of the Netherlands and the Swedish International Development Cooperation Agency (Sida) – for their support in making critical fora such as these possible. He extended his gratitude on behalf of the Institute towards the Sunday Independent newspaper that acted as the media sponsor for this event.