SwissCham
Southern Africa – South Africa Chapter (SCSA-SAC)

Event Review

Prof. Raymond Parsons

8th of November 2012
at the Fairlawns Hotel, Sandton

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At a Luncheon recently held at the Fairlawns Hotel in Morningside - Sandton, Members of SwissCham Southern Africa – South Africa Chapter had the privilege of being addressed by **Professor Raymond Parsons,** Professor, Graduate School of Business, North West University / Special Policy Adviser, BUSA.

SwissCham President Thomas C. Hippele welcomed the guests who had come to hear Professor Parsons's message on the topic:

" A longer-term perspective on the Economic Outlook"

After a delicious starter and main course, Thomas Hippele introduced the guest speaker, Professor Raymond Parsons.

SwissCham President – Thomas C Hippele

Professor Raymond Parsons is a professor at the Graduate School of Business at North West University in Potchefstroom and a Special Policy Advisor to Business Unity South Africa (BUSA). Until recently he was the Deputy CEO of BUSA. He has also lectured at the Department of Economic and Management Sciences at the University of Pretoria. Professor Parsons was the Overall Business Convenor at the National Economic Development and Labour Council (NEDLAC) until 2010, which is the major social dialogue institution in South Africa. He is a key contributor to public and academic debate on a broad spectrum of issues of critical importance to the political economy of SA. He is a recognised authority on the SA economy and its implications for the business community. He studied economics at the Universities of Cape Town, Oxford and Copenhagen, before playing a leading role in organised business in SA for many years. He is a former Director-General of the SA Chamber of Business (SACOB). From 2000-2003 he was a Visiting Professor at the School of Economic and Business Sciences at the University of the Witwatersrand. He also holds an Honorary Doctorate from the Nelson Mandela Metropolitan University (NMMU) and is an Honorary Professor there. He is a government—appointee to the council of the NMMU. Professor Parsons is a Past-President of the Economic Society of South Africa (ESSA). In 2004 former President Thabo Mbeki appointed Professor Parsons to the Board of Directors of the SA Reserve Bank and was reappointed in 2008. He was also a director of the SA Mint. He is the author/editor of four books – *The Mbeki Inheritance: SA's Economy 1990-2004*, *Parsons' Perspective – Focus on the Economy*, *Manuel, Markets and Money. Essays in Appraisal* and *Zumanomics – which way to shared prosperity in South Africa?*

Professor Raymond Parsons

If we look back over the past few years we will see that, when we examine the global economy, it has been more than a cyclical phenomenon – the tectonic plates have shifted dramatically under the global economy since 2008 and we are not yet certain when or where they will settle. Since the economic crisis of 2008 the global economy has not yet recovered its momentum. Just when we thought the world was successfully pulling out of its recent recession there have been new challenges. The EU is in trouble, and for once the word "crisis" is not an exaggeration but a description. The Eurozone crisis has not created the sovereign debt crisis, it has merely exposed it. The dramatic and far-reaching impact of the financial crisis of 2008 has been playing out since then and will probably register in history as the most significant economic event since the 1930's.

The facts of what had happened are well known and do not require repetition to this audience. But an interpretation of them, both generally and for South Africa, continues to be a matter of great debate. In the meantime, national treasuries and central banks around the world seek to forge policy responses appropriate to the new situation and the challenges being faced.

In this regard re-elected US President Obama faces an immediate leadership challenge over the so-called US "fiscal cliff". Between now and the end of 2012 he will need to negotiate a deal with the Congress (of which the political composition has not changed) to address the fiscal challenge. Under current law, America is set for a fiscal squeeze worth about 5% of GDP, as the Bush tax cuts and other temporary tax reductions expire at the end of 2012, and deep cuts in federal spending also kick in. If the politicians do nothing, that fiscal squeeze would eventually send the weak US economy back into recession.

Some perspectives on the Global Debate…

To disentangle the events and the explanations that have sprung from recent global developments is a huge task and I can only do brief justice to them here today, as we grapple with immediate challenges of national economies that are performing below par, in some cases well below par. At the global level, allow me to first leave you with the following key observations on a broader perspective about what has happened globally in the past few years. Then we will come to South Africa.

Firstly, "the market" as such did not fail, one part of one sector did, but with serious contagious consequences. The way sub-prime debt was securitised, spliced and sold on with no und underlying risk or value was wrong, irresponsible and very damaging. There is understandable anger about what has happened. Everyone has become frustrated with financial globalisation but it is easier to point out flaws in the system that to correct them. While the recent crisis has highlighted the need for better rules, agreement on many issues has proved elusive.

Secondly, governments also failed. Regulations and state institutions such as Fannie May and Freddie Mac in the US contributed to a highly vulnerable situation. Debt became too cheap. The responsibility for the crisis needs to be shared. There is enough blame to go around at several levels to explain the systemic failures, both in 2008 and also the subsequent sovereign debt crisis in the Eurozone.

Thirdly, the failure was also one of intellectual understanding, both by existing regulators and by many economists. It may be argued that the so-called "experts" should have seen it coming but the fact remains that they did not. The few warning voices were ignored and the power to intervene which already existed among regulators was not used timeously or wisely.

Fourthly, while financial innovation is often good for liquidity and economic activity, that is not the whole story. The danger in innovation is the possible unintended consequences, especially in regard to the under-pricing of risk. We saw this with the toxic derivatives.

Fifthly, the consequences of what goes wrong in the global economy are magnified by its highly interconnected and interdependent nature. The impact is then multiplied by that intangible, but profoundly powerful factor, called "confidence".

Finally, we must recall that economic history tells us that the current financial crisis is merely a severe example of the panics and crashes that have happened before. Lenders and borrowers have regularly in history overestimated the latter's ability to repay debts. When the realities become clear, banks collapse and confidence in the financial system declines.

So much for some global perspectives as the world reconfigures its approach to economic policy and strategic direction. It is indeed time for a rethink on the global developments of the past few years , especially in areas such as financial regulation, debt management, trade and climate change. The London *Economist* (13 – 18 October), outlining a "True Progressive" agenda for the new politics of capitalism and inequality, would be an excellent place to start.

It is important to retain these global perspectives as we turn to the net effect of global economic trends on the performance of the SA economy. As a small open economy SA has not escaped the consequences of deteriorating economic prospects in the global economy. It has been one of the reasons why forecasts of economic growth in SA have been progressively reduced during the course of this year from a more positive 3% at the beginning of 2012, to a more realistic 2.5% in the latest "mini-budget" on 25 October 2012. And we have seen the global impact on our export performance. Yet the JSE All Share Index is setting record new highs and business confidence remains more negative than company results. Corporations are often criticised for retaining large cash balances at present, both in SA and elsewhere. But is this the complete narrative? What else lies on the domestic front?

What can South Africa do? All countries have some cards to play in the face of adversity and South Africa is no exception. The outcome will depend on how well individual countries are able to respond and their degree of resilience is doing so.
How they are seen to be managing their challenges is an important confidence factor and this is also true for South Africa.

In assessing where the emphasis must now fall in deciding policy in South Africa, it is necessary to distinguish clearly between:

- The factors in the global economy over which a country like SA has little or no control

and

- The factors over which the country does have control, such as its domestic policies. This is even more important given the extended and delayed recovery expected in the global economy.

If we recall what the Finance Minister said in his Mini-Budget Speech on 35 October, he emphasised that South Africa would have to look at itself, what reforms we can implement to give greater impetus to investment, business development and job creation. In other words, he accepted that SA needs to do better in tackling its internal challenges, if it wants a much better economic performance and remain internationally competitive.

And it was noteworthy the extent to which he referred in the Mini-Budget Speech to the National Development Plan (NDP). This is a document which has now been accepted by the Cabinet. This is a document which all business people, whether local or foreign, should study if they want a long-term vision of where South Africa could be in 2030. Prepared by an independent structure, the National Planning Commission, it is a holistic roadmap of what SA could be in 2030, and how to get there.

In a Nutshell, the NDP sees the vision of 2030 being realised by being based on:

- the active efforts and participation of all South Africans in their own development;
- redressing the inequalities of the past effectively;
- faster economic growth and higher investment and employment;
- rising standards of education, a healthy population and effective social protection;
- strengthening the links between economic and social strategies;
- an effective and capable government;
- collaboration between the private and public sectors;
- leadership from all sectors of society;

In the NDP we have the broad roadmap we need to build an economy which is bigger, stronger and better in the years ahead. The NDP just needs to be progressively implemented in ways which build confidence, and which provides coherence and coordination in policy. We need sensible and urgent action now, within the NDP framework.
What SA does not therefore need at this juncture is an economic Codesa, as some observers are urging. Their idea is to recreate a large-scale and prolonged "summit" with the goal of achieving a new economic accord against the background of recent developments like Marikana. "Summitry" is almost a way of life in South Africa, but we do not have the time to go over familiar ground yet again.

Rallying behind the NDP Roadmap….
Building on previous and current programmes, the National Development Plan (NDP) offers a comprehensive and accurate diagnosis of our challenges and does so in a frank and open way. President Jacob Zuma has emphasised that this is not a plan for government, but a plan for all the people of South

Africa. The plan charts a 20-years path towards achieving the overarching vision embedded in the Constitution, that South Africa belongs to all who live in it. South African Companies as committed corporate citizens of this country want and need this vision to be achieved. Business would agree with almost all of the proposals embedded in the plan and should believe that, if adequately implemented, the NDP can set SA on a very promising path. It already embodies several current initiatives but seeks to integrate them into a bigger picture. A vision serves to create a sense of purpose that encourages people to change their actions.

The NDP offers a roadmap for South Africa; an overriding, long term document that extends beyond the political and short term business cycle to form the framework of social planning and regulations, providing the golden thread that underpins the battle to address the challenges of poverty, inequality and unemployment. In order to foster economic growth and social progress it will be necessary to alter fundamental attitudes to citizenship, risk, trust, competition, state capacity and other critical variables. It could be seen as national rallying call that can unite the whole country behind it. We should see it as a plan whose key tenets will be known by, discussed by and lived by the whole population. It outlines how South Africa can unlock its true potential and give many more people a stake in the system to uphold and defend. After all, a society is judged not only by what it achieves, but by what it aspires to achieve.

Just as importantly, The NDP has identified trust as a constraint to the achievement of its goals. It acknowledges that "long term growth and investment requires trust and cooperation between business, labour and government. In South Africa levels of trust are low". The issue of lack of trust within South Africa, particularly between government and business, is one that has been raised in various for a over the past two decades. Unfortunately, it is still an issue which persists. Business must acknowledge that trust isa two-way street and that it needs to do more to build bridges with government.

The cabinet has accepted the NDP, but it remains to be also discussed at the ANC's elective Conference at Mangaung. It could provide the certainty and predictability on which private investment thrives. If we are seeking more policy certainty for investment and growth, the NDP is a good point of departure.

Summary and Conclusion…..

We are living in a challenging and uncertain world, one in which we can be both apprehensive and galvanised. It is still a world in which SA has to remain globally competitive. Clearly many business people are asking deep questions about looming challenges. There is no "quick fix" for South Africa. What is necessary at this time is leadership and vision that will lift SA beyond the current dogmas, tensions and disputes to realise a future shared vision. There are important lessons to be learnt from recent events in SA, for both the public and private sectors, if we are to successfully address the aforementioned triple challenges of unemployment, poverty and inequality.

Business is an important agent of change and it can deploy its role more fully in a country like South Africa. Although the Cabinet has endorsed it, the NDP needs more champions and business should be one of them. Some nations are ready for change and some are not. A sense of urgency is created when there is a gap between expectations and reality. That is where SA is today. If South Africa can craft and implement the right short-term and long term measures to address current challenges, then it is quite possible to prove

the sceptics about SA wrong. It is largely in our hands to write a different story in the years ahead, and for which the NDP provides a blueprint.

There is a “virtuous circle” of high growth, democratic governance and social development possible in South Africa. The transition of a high-skill, high-productivity and rising wage economy is both economically necessary and politically desirable. The forces of globalisation abroad, and the dynamics of transformation within, must meet in a faster catch-up growth for South Africa, of the kind experienced by several other emerging economies.

The NDP confirms that all these considerations point to a need for a higher job-rich growth path, a faster pace of development and a society growth wealthier in the broadest sense rather that in a narrow one. We must therefore widen and deepen our commitment to the National Development Plan and the vision for 2030 to build confidence in what we want to do next.

So must we be optimistic or pessimistic about the outcome? May I conclude with the following quotation:

“In this world, the optimists have it, not because they are always right, but because they are positive. Even when wrong, they are always positive. And this is the way of achievement, correction, improvement and success. Educated, eyes-open optimism pays – pessimism can only offer the empty consolation of being right.”

Daniela Maurer for
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