Question: *So what is this with the ANC making new noises about a flexible labour market, the cost of BEE and even about Afrikaners more inclined to embrace the new SA than English-speaking Whites?*

Answer: The ANC has published four discussion documents ahead of a meeting of its National General Council to be held from 29 June to 3 July in Tshwane. The last such meeting was held 5 years ago (in 2000) in Port Elizabeth. One of the four documents, and by far the longest, deals with the economy under the heading "Development and Underdevelopment". (Another much shorter document, "On the National Question", talks about a common patriotism and there is the reference to the Afrikaners.)

Question: *About the economy?*

Answer: It is a wide-ranging paper that popularises a number of areas and gives one a good indication of ANC thinking. The full document can be read at:

http://www.anc.org.za/ancdocs/ngcouncils/2005/2economydivide.html

It states that there are 3 challenges remaining on the economic front: unemployment, mass poverty and inequality and low growth, investment and savings.

Question: *So what should be done about these problems?*

Answer: The paper suggests four interventions:

- investment to create sustainable jobs;
- investment in infrastructure which will encourage development;
- development of potential through small business development, local development and employment and
- investment in education, training and health.

Question: *Sounds fine, but how?*

Answer: This is where it gets interesting. I quote the relevant two sentences:

"South Africa's strategy has to be to raise the level of investment and economic activity, while at the same time reforming the labour market so that more labour is absorbed, the fruits of economic growth are spread more evenly, and the Second Economy is empowered to generate higher levels of growth endogenously and in collaboration with the First Economy.

The two elements of this strategy entail reducing the cost of capital and allowing for a more competitive currency aimed at raising investment and exports, while at the same time allowing for labour demand to be expanded through more flexible and appropriate labour market policies." (My emphasis).

Question: *In other words, two goals and three actions?*

Answer: Yes. Raise investment (through lower cost of capital and a competitive currency) and increase demand for labour (through more flexible labour market policies).

Question: *How to achieve lower cost of capital?*

Answer: The paper rejects the easier option of just lowering rates. It says lower rates must come from a prudent fiscal policy, nuanced inflation targeting, better use of capital in the state enterprises and the like. That is very much what is happening now and thus not new for investors. What is new is that in this section the paper refers to how BEE can soak up capital, leaving too little money for growth and investment. I do not think it is going to lead to a reversal of BEE, but it may affect the emphasis on the equity ownership component of BEE.

Question: *And a more competitive currency?*

Answer: One sentence only: the paper calls for freer foreign exchange markets and more reserve accumulation. The SARB is already doing the latter, so the paper implies some movement on forex control.

Question: *And what about cost of capital in the second economy?*

Answer: The paper argues very strongly for direct grants and subsidies to go directly into the second economy. However, it admits that will cause fiscal strain, which will torpedo the goal of lower cost of capital. It therefore talks about raising money from overseas and from "under utilised" domestic assets via some form of prescription. This opens the door to the 5% proposal from the Growth and Development Summit (which business, labour and government endorsed). In terms of that proposal: 5% of investment portfolios will be invested in "social investment". Meetings have started in Johannesburg to flesh out details on this. We will keep you posted.

Question: *Okay, these things will give you more investment, but not necessarily more employment?*

Answer: Exactly what the paper argues. It says that if lower cost of capital is offset by higher labour costs, employment will not benefit. Hence, the call for a more flexible labour market.

Question: *Any details on labour market deregulation?*
Answer: Lots of discussion but the following concrete proposals emerge:

- Collective bargaining agreements should not necessarily be applicable to parties who did not participate in negotiating that agreement. Currently such agreements, once negotiated, get extended to non-parties, mostly small business, which did not actually participate in the negotiations.
- The creation of a dual labour market. Four criteria are suggested for duality: **age, geography, type of sector** and **size** of company.
  - On **age**: younger workers not covered by all labour laws.
  - On **geography**: companies in industrial zones partly exempted.
  - On **type**: the paper suggests that sectors like tourism, personal services and textiles are exempt from some labour laws.
  - On **size**: the cut-off where companies are exempted from labour legislation can be increased from 50 to 200 employees.

Question: *Will all of this be implemented?*
Answer: Probably not, but some will. The labour market will not become as free as many employers would want it. Also not as free as the expectations created by some in the media. But it will certainly become freer than it is now.

Question: *Will Cosatu take it?*
Answer: No. But neither will they be able to stop it. Worldwide labour is in retreat (just look at what is happening in Europe) and I cannot really see it being any different here. They can call a national strike and protests and so on, but that will not stop all the action. Public sympathy will not be with them if the things they oppose hold the promise of more jobs. And that is how the ANC will sell it. I think the ANC's strategy will be to do what they propose and let Cosatu decide whether they want to stay or leave the alliance. The real test then will be whether Cosatu has the guts to leave the alliance.

Question: *What is the overall bottom line?*
Answer: I think we will end up with a somewhat more investment friendly environment. No big shakes, but a consolidation of what we have seen already, and some new sentiments around labour and the cost of financing equity in BEE. I think the newspaper that talked about these matters being "up for grabs" is certainly going too far. Not a new world, just one more step in a slow but certain move towards better growth and more jobs.

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