



- Question:** *You were very wrong?*
Answer: Yes, and I am sorry about that. My forecast was that Mbeki's economic proposals would pass the ANC's General Council Meeting and that would cement a new push for higher growth. That did not happen.
- Question:** *Exactly what was kicked out?*
Answer: The proposal for a dual labour market died (some other non-economic proposals, including one on Zuma, were kicked out as well, but more on that later.)
- Question:** *Where does that leave us?*
Answer: The labour absorption ability of the SA economy will remain low, meaning that unemployment will remain high. The first/second economy divide will remain rigid and the outsiders will remain outside. All the proposals by union spokespeople about R&D, training, growth strategies etc. to curb unemployment are inherently long term and will not enhance labour absorption in the short to medium run. Thus unemployment remains intractable.
- Question:** *How are we going to roll back unemployment then?*
Answer: A little bit of short-term relief with the public works programme, some more relief from huge capital expenditure by the public sector (Transnet, Eskom, the Gautrain) and then the normal expansion of the economy, driven mainly by the private sector. Last year about 250 000 jobs were created, all in all. This year it will probably happen again. (Last week I motivated why I am sceptical about the StatsSA report that 136 000 jobs were lost in the first quarter of 2005). Not enough to roll back the millions of unemployed, but enough to maintain the steady progress we have seen.
- Question:** *Does it really constitute progress?*
Answer: The economy grows at 3.5%, work seekers at about 2.5% and the population at 1.3%. Slow progress, but progress nevertheless.
- Question:** *And the currency? The conference also made some noises about having a competitive currency (i.e. a lower currency).*
Answer: However, a number of proposals around lowering the value of the currency were ruled out by Mbeki himself. He specifically ruled out "playing with interest rates" to influence the value of the currency and made it clear that market forces will determine the value of the currency. In saying this he absolutely backed the minister of Trade and Industry who last week, on the day of the Cosatu strike, ruled out artificial means to influence the currency. (Politics Weekly of 28 June).

Question: *That is on the economy. What about politics in general?*

Answer: Mbeki is weaker than he was before the conference. I do not think he is mortally wounded, but he was hurt. However, it was clear by Sunday evening that he had reasserted himself to some extent. But make no mistake - this fight will take some time to play out. The conference revolt was a revolt both against Mbeki's aloof leadership style and his economic policies. Many people feel marginalised and ignored. They took their revenge. Zuma was the beneficiary of it. The conference was not so much pro-Zuma as anti-Mbeki's leadership style. In the opinion of many, the ANC has reasserted itself against Mbeki's centralising actions (e.g. appointing premiers, deciding unilaterally on economic policy, making short thrift of Cosatu and the SACP as policy-making partners and so on).

Question: *But that is good for democracy and a culture of democracy?*

Answer: Yes it is. That is the upside of what happened over the weekend. One ex-cabinet minister called it "opening up a space for democratic debate". But it is a great pity that this democratic assertion manifested against Mbeki's stand against corruption (dismissing Zuma) and his efforts to enhance labour absorption (dual labour market). A classic case of democracy at work at the cost of economic efficiency and a rule of law stance. Textbooks cannot describe it better. Well, such is sometimes the nature of democracy. One must go back to the people (as EU governments must now do after losing the EU referendums). That is now Mbeki's huge challenge.

Question: *Can and will he do it?*

Answer: He did it last year in the election campaign. So yes he can. Will he? Let's see.

Question: *You say the fight will carry on for a while. That is not good for certainty and may affect sentiment?*

Answer: Indeed. Together with the death of labour market reform, economic growth can find itself restrained from 3.5% to 4%. Like the euro after the no-referendums, the rand may take some pressure (although it does not look like it so far this morning).

Question: *But the tensions cannot be avoided?*

Answer: No. The ANC is a party in transition, whatever the rhetoric. From a working class and mass based liberation movement to one that is governing in a globalised world - like the NP moving from apartheid to one-man-one-vote position. Tensions and fights are unavoidable. As long as Mbeki keeps pushing the party towards modernity, which is what he is doing, there will be revolts and tensions. Mbeki's style might add to it, but even under Mandela's style the tensions could not be avoided. We may see artificial peace until the next event (remember Macmillan!!!), which could be the next national conference in 2007 or Zuma's court case...but the tensions will remain.