



**Question:** *First the facts – what did President Mbeki say?*

**Answer:** Some 80% of the speech (measured in page length) dealt with domestic issues and 20% with international relations, including Africa.

**Question:** *What was the focus of the 80% dealing with domestic issues?*

**Answer:** 7 themes all in all: one symbolic and 6 quite tangible. They were:

- SA belongs to all who live in it (the symbolic one);
- A review of what was achieved from last year's speech;
- growing the economy;
- growing the small business sector;
- improving capacity in the public sector;
- crime; and
- improving the social state of the nation.

An 8<sup>th</sup> theme on which he did not elaborate much, but which is certainly on government's agenda, is social cohesion and what government can do about it. Some research on this has been commissioned and cabinet will receive and consider the report in the next few months. This raises the whole issue of social capital, which is increasingly seen as a vital element of economic growth and societal success.

**Question:** *Social cohesion links in with the theme that SA belongs to all who live in it?*

**Answer:** This year it will be 50 years since the Freedom Charter was adopted at Kliptown. Mbeki followed through on that theme by specially referring to workers, volunteers, whites and others in affirming their place in SA. There is symbolism for those who want to see it.

**Question:** *Enough of the abstract, what was concretely achieved from the promises made in last year's speech?*

**Answer:** A total of 307 actions were launched in last year's speech setting out the post-election agenda. According to Mbeki, 51% of those were met or initiated as per the set timetable; 21% was completed or initiated but not on the time limits as set and 28% are behind schedule. This falling-behind partly explains the theme on improving the capacity in the public sector.

**Question:** *For now, what are the big political themes emerging from the speech and who will be the winners and losers?*

**Answer:** For me the big theme emerging is what Mbeki himself last year called "a developmental state". Sanlam economist Jac Laubscher calls it "Africa's first development state" combined with an "African welfare state".

**Question:** *What is a developmental state?*

**Answer:** Firstly, pursuing high **economic growth** through an emphasis on **investment**, an **open economy** and **lower transaction costs** (classical free market stuff); but also through **inclusion** (that is where empowerment, affirmative action and charters come in) and focused efforts to develop **skills** (that is where the training levy and SETAs fit in).

Secondly, **redistribute** some of this growth to the poor through social services and an effective safety net for the indigent (hence 10 million beneficiaries now receiving monthly allowances). However, this must be done in a **sustainable manner** (thus the rest of us not noticing this massive redistribution in our taxes or interest rates).

On this point it is interesting to note that Mbeki's comment on Friday that "we" must tell the poor it will take time to meet their needs because resources are limited, was condemned by Patricia de Lille. The leader of the Independent Democrats reckons there are more than enough resources to help all the poor *now*, government must just re-prioritise. Ja, well, no, fine.

Thirdly, **intervene** where you think the market is not working well (minimum labour conditions; attempts to regulate medicine prices and the medical profession and talks with the private sector on import parity pricing).

Fourthly, use the public sector as **delivery agent** to bring social services to the poor (hence committing local authorities to provide sanitation for all by 2010; clean water for all by 2008 and electricity by 2012).

Fifthly, state institutions must also be used for **poverty alleviation** (hence the public works programme, which has so far cost R1.5 billion and created 76 000 jobs).

I suspect a sixth element will be using the power of the state to create social capital and thus foster **social cohesion**. Let's see what comes out of this project.

**Question:** *This a hell of an agenda? Can it all be balanced?*

**Answer:** Probably not but so far, there are more successes than failures. Growth is quite high and certainly higher than it was; redistribution and poverty alleviation is at an all time high. But there are also problem areas: pharmacies, doctors, labour laws.

At the same time one adapts as one goes along: witness the tacit admission with the announcement that small business will be exempted from some labour laws. Unthinkable five years ago. That follows on the nonsense Jay Naidoo model of the nineties that Telkom cannot have competition because it must first render social services. No we are implementing a big bang deregulation in telecoms. U-turns do occur.

**Question:** *Ok, who are the winners and who the losers from this philosophy?*

**Answer:** Clearly the medical profession and pharmacies are losers (although the Constitutional Court will probably still pronounce on this issue). So are the farmers who cannot achieve economies of scale. So are those who are hit by opening up the economy.

**Question:** *And the winners?*

**Answer:** Those who can participate in the infrastructure boom (e.g. building and construction companies; electrical suppliers and contractors); those with skills and capacity to participate in PPPs (public private partnerships) like for example Imperial, Supergroup, some banks (one in particular is very strong in this) and those who are productive enough to survive the lowering of transaction costs and opening up of the economy.