

No illusions – and no false promises

Dear colleagues

On 01 August, the President of the Republic His Excellency (HE) Cyril Matamela Ramaphosa convened the first meeting of the Presidential Jobs Summit Committee under the auspices of Nedlac. He was accompanied by HE Deputy President David Mabuza, Chairman of the Cabinet Ministers' Economic Cluster and Minister of Employment and Labour Mr Thulas Nxesi, Minister in the Presidency Mr Jackson Mthembu, Minister of Trade, Industry and Competition Mr Ebrahim Patel, Deputy Minister of Finance. The meeting was also attended by Senior Leadership of Trade Unions, Community constituency and business.

Although the primary purpose of our meeting was to review progress on the implementation of the agreements at last year's Jobs Summit, but, as I pointed out at the Summit itself, the real structural challenges facing the economy, which have deteriorated since then, were bound to dominate our discussions.

As it transpired, like the President, we wasted no time in expressing business' concerns about the state of the economy – as well as pointing out that there is still much work to be done if we are to avoid a perilous downward spiral. The urgency for strategic, focused and decisive action is upon us as a nation.

The backdrop to our gathering didn't escape any of our minds as the Committee. After all, this was a week in which we saw:

- The release of the latest unemployment statistics (now a deeply concerning 29%);
- Fitch's decision to downgrade South Africa's outlook from stable to negative, while maintaining the credit rating at 'BB+', a notch below investment grade,
- Clear indications that economic growth remains subdued;
- Ongoing evidence of the crisis in SOEs in general, and Eskom in particular – including its latest R59-billion bail-out.

It remains our view, as business, that the Jobs Summit agreements about mitigating the adverse effects of unemployment cannot be achieved under these circumstances. A sustainable solution rests with addressing the structural challenges of the economy. What's needed, beyond accepting that we are in a crisis are hard, perhaps painful decisions about the fact that the economy, in its current form, is not only not capable of creating jobs, but it is shedding even more.

For that reason, we told our social partners, it's crunch-time.



And to get out of the current crisis, instead of just talking about creating jobs, we need to talk about how to build an economy that creates jobs and take urgent steps to implement the clear options.

We made it clear, for example, that we do not believe Government is being realistic in dealing with debt and we are moving closer and closer to a debt trap. The economy is contracting, revenue is decreasing, while expenditure demands are increasing. We expressed our fear that the government's financial position is deteriorating, day by day.

Systemic risk

One of our biggest fears is that there may be increasing coercion of financial institutions to extend credit to SOEs that are already up to their necks in debt. That will present a systemic risk to our banking and financial services sector and compromise one of the few remaining pillars of our economic system that makes South Africa an attractive investment destination. This is deeply concerning to all of us.

The situation has come about because, among other things, Government is not prepared to face the reality that it doesn't have the resources to do what it wants to do and doesn't seem prepared to cut back sufficiently and take the hard decisions it needs to take to address fundamental inefficiencies in the structure of the economy.

The truth is that aggressive fiscal consolidation is needed, particularly when it comes to SOEs.

We also put it on record that we are particularly disappointed with the handling of the SOE that bleeds the most – Eskom – and spent a lot of time explaining the consequences of the current trajectory.

We are not satisfied, for example, that Eskom only started last week to look for a new CEO, despite having two months' notice from the outgoing CEO. That means another three months, at best, without a permanent CEO. This lack of urgency is disturbing.

We are equally disturbed with the proposed arrangement around the Chief Restructuring Officer (CRO). Our high regard for the proposed candidate notwithstanding, we expected the CRO to be someone with a proven track record and who would create an impression that Government means business and anticipated the appointment of someone who would make us sit up and say "wow."

But the proposal put forward by Public Enterprises Minister Pravin Gordhan is underwhelming, to say the least. With all respect the person who has been identified, he has no experience in restructuring – the biggest challenge facing Eskom -- and will only be applying his mind part-time to a task that is more than full-time.

Wrong signal

This sends completely the wrong signal – particularly when the new board has a plan, the technical team has a plan, but there is no real movement to implement. The ideas are there, but it is increasingly obvious that there is no political will when it comes to hard decisions.

In this environment, asking consumers to pay more for electricity can only increase the chance of a jobs' bloodbath. Business will increasingly be unable to afford the cost of power and is more likely going to have to shed even more jobs.

There is no other choice for Government now: it needs to confront the risk posed by the current malaise and the crises in SOEs and come to terms with the fact that it probably won't be able to save all of them.

If Government doesn't take these decisions soon, the IMF will be making the decisions for it. The risk of needing an IMF bailout is already a very real one. And if that happens, decisions will be taken beyond our control, and out of our control.

The choice is stark yet simple: either we prescribe our own medicine, or someone else will prescribe it for us. And it will be bitter, bitter medicine.

Some of the decisions that need actioning are relatively straightforward – visa regulations, for example, which prevent us from importing high-end skills and hobble tourism. These, and other measures to make it easier to do business in South Africa, should be dealt with quickly and effectively.

The same applies to some of the decisions reached at the Jobs Summit, such as those around skills and training, where the lack of movement largely has to do with delays on the side of government. We need movement, and a sense of urgency.

Retrenchments

When it comes to retrenchments, we made it clear that no business goes out of its way to do this for the fun of it. The welfare of employees of any business is an important element of the success of any enterprise. While no business organisation can ever declare a moratorium on retrenchments, our efforts to improve the fortunes of our economy are intended to enhance the success of business enterprises; and thereby increase employment. Retrenchments are a consequence of an economy in trouble and reflect the general business mood. We will, however, continue to consider retrenchments as a last resort, and repeated this undertaking in our meeting with our social partners.

As the economy tumbles, however, this terrain is going to be increasingly difficult – particularly if reduced government spending means increased business failures.



We believe business and labour need a bilateral engagement on this and get out of the current adversarial relationship and work together as social partners under the leadership of government. We will all have to take pain in order for us to live for another day.

In some ways the current economic situation feels like a chess game, and we used this analogy in our discussions with our social partners. We were tempted to argue that we have reached checkmate; but the President was quick to point out, and we all agreed, that we have not yet reached that point. We have, however, agreed that certain prized chess pieces – the bishops, the knights, the castles – maybe even a queen – may need to be sacrificed to avoid a checkmate.

Either way, it is not a comfortable situation to be in for any of us, but it is one we have to confront.

Doing more

The President proposed and we all agreed to do more, and to meet monthly as social partners. Everybody understands where we are, and as business we confirmed that we will do whatever we can to protect, preserve and promote the economy and jobs.

BUSA has in the past proposed a social compact, its prospects are increased. We cannot enter these pacts unwilling to give, but only ready to take. We must be a credible and reliable partner if the difficult journey we are embarking on is to succeed.

As business, we need to think even harder about how we can avoid retrenchments and improve our positive contributions in repositioning the economy. And if we can increase our investment in South Africa, we will do so. We need to present proposals that will increase the prospects of more private sector investment in the economy.

The President made it clear that he wants us to work with him in fixing the country. In return, on your behalf, we expressed our confidence in his leadership, and we made it clear that we are available and will put all hands-on deck.

We also made it very clear that he has our support, and that we see him as the leader of our times to take us out of the morass. But he must be under no illusion as to the scale of the task, the magnitude of the decisions that need to be taken, and the importance of not making false promises.

The thrust of our future meetings is not only going to be on reminding government of its commitments, but also providing input into what business can do to get things back on track in the spirit of true partnership.



Clearly, this isn't a time to moan and groan. It is a time for positive contributions in engagements that can redirect the trajectory of our economy, and I encourage you to share these notes as broadly as possible, including to your member organisations, so that we receive maximum input for our future meetings with our social partners under the leadership of the President.

Let us use the space we are afforded optimally to make a positive difference.

Best wishes,

Sipho M Pityana
President
BUSA