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LETTER FROM THE PRESIDENT

Bold steps to end the 'two nations' divide

On Thursday last week, the day before we went to press, the Reserve Bank announced a 1 percent reduction of the interest rate. Naturally and correctly, everybody in the country has received this very well.

As many commentators have observed, the lower interest rates are good both for the investor and the consumer. They enable investors to borrow money at a lower cost, thus encouraging further investment in the economy. And as we all know, the higher rates of economic growth and development that we all seek cannot take place without such investment.

The lower interest rate also reduces the debt-servicing burden on consumers. This includes all those people who are servicing house mortgages and other consumer debts, such as those that derive from the purchase of household goods, motorcars, clothing and so on.

In this regard, quite correctly, various commentators have advised consumers not to use the more favourable situation created by the interest rate reduction further to increase their indebtedness. Rather, they should use this opportunity to reduce their levels of debt.

The lower interest rates also give the possibility to the government itself to borrow money at cheaper rates. This assists in ensuring that the government reduces the proportion of the national budget dedicated to servicing the national debt. This increases its possibility to use the national resources that accrue to it to address the many development challenges we face.

In the aftermath of the interest rate cut, it was also reported that major retail chains are expected to show higher annual earnings. In part this is a result of tax cuts that have encouraged consumer spending and, together with the interest rate reductions, boosted credit demand.

These and other developments confirm the relative buoyancy of our economy. Even though the economy is growing at rates that are lower than those we need and desire, it is nevertheless growing and developing. It is in a relatively healthy state, given the global economic situation.

At the end of the July Cabinet Lekgotla, we reported that a number of the economic challenges we now face arise from the fact of the further growth and expansion of the economy. In particular, we drew attention to serious constraints that have arisen in the transport sector.

These affect road, rail and air transport, as well as our harbours. The problem we face in this regard is that the volumes of freight have grown to such an extent that our transport system as a whole is finding it difficult to cope with these larger volumes, including imports and exports. Accordingly, the government and the state corporations have taken the necessary decisions to act as speedily as possible to address the constraints that have emerged.

This must also target the movement of people, including tourists who want to visit our country. For some time already, it has been clear that there are not enough airline seats to meet the tourist demand especially from Europe.

Work is continuing in other areas to ensure the further growth and modernisation of our economy. This includes the important areas of human resource development, innovation in science, technology and engineering, and trade promotion.

The Growth and Development Summit earlier this year emphasised the commitment shared by all our people, government, labour, business and civil society to work together to bring about the higher rates of growth and development that our country needs. The Summit demonstrated the determination of many of our people to join in the people's contract to push back the frontiers of poverty and underdevelopment.

All the matters we are discussing have the most direct bearing on what has been described as our "first world economy". This is the modern industrial, mining, agricultural, financial, and services sector of our economy that, everyday, become ever more integrated in the global economy. Many of the major interventions made by our government over the years have sought to address this "first world economy", to ensure that it develops in the right direction, at the right pace.

It is clear that this sector of our economy has responded and continues to respond very well to all these interventions. This is very important because it is this sector of our economy that produces the wealth we need to address the many challenges we face as a country.

Central among these, as we all known, is the urgent challenge of poverty that continues to afflict millions of our people. A stronger "first world economy" also gives us the possibility the better to confront the task of reducing the racial and gender inequalities in standards of living and the quality of life, that continue to characterise our country.

After the July Cabinet Lekgotla we also said that the successes we have scored with regard to the "first world economy" also give us the possibility to attend to the problems posed by the "third world economy", which exists side by side with the modern "first world economy".

Here I am referring, for instance, to those areas the government identified earlier as the nodes for Urban Renewal and Integrated and Sustainable Rural Development. These and similar areas contain the largest numbers of poor people in our country. But this is not the only issue that characterises and sets them apart.

Of central and strategic importance is the fact that they are structurally disconnected from our country's "first world economy". Accordingly, the interventions we make with regard to this latter economy do not necessarily impact on these areas, the "third world economy", in a beneficial manner.

This structural disjuncture is manifested in a variety of ways. One of these is that many of the unemployed in these areas have either no skills or very low skills levels. As the economy of our country has developed, it has tended to require people with higher levels of appropriate education and training.

This renders many of the unskilled both unemployable and incapable of starting any small business that requires one skill or another.

Because of these realities and the fact of poverty, these sections of our population also have no access to the services offered by the modern financial sector that is part of the "first world economy." Accordingly, even where people within the "third world economy" seek micro-credit to finance the development of small business, they do not get such credit. Rather, they fall victim to unscrupulous moneylenders, omashonisa, who lend money, at exorbitant rates, to people who borrow for purposes of consumption.

It is sometimes argued that higher rates of economic growth, of 6 percent and above, would, on their own, lead to the reduction of the levels of unemployment in our country. This is part of a proposition about an automatic so-called trickle-down effect that would allegedly impact on the "third world economy" as a result of a stronger "first world economy".

None of this is true. The reality is that those who would be affected positively, as projected by these theories, would be those who, essentially because of their skills, can be defined as already belonging to the "first world economy".

The task we face therefore is to devise and implement a strategy to intervene in the "third world economy" and not assume that the interventions we make with regard to the "first world economy" are necessarily relevant to the former.

The purpose of our actions to impact on the "third world economy" must be so to transform this economy so that we end its underdevelopment and marginalisation. Thus we will be able to attend to the challenge of poverty eradication in a sustainable manner, while developing the "third world economy" so that it becomes part of the "first world economy".

This means that those who benefit from the growth and development of the "first world economy" will benefit even more from its expansion, resulting from the development of the "third world economy" to the point that its loses its "third world" character and become part of the "first world economy".

To get to this point will require sustained government intervention. This is because, given the structural disjuncture that separates the "first world" and "third world" economies, we cannot and should not expect that there would be any mechanism inherent within the "first world" economy that would result in the latter transferring the required resources to the former, to enable it to outgrow its "third world" nature.

We mention resource transfers because this is exactly what the "third world economy" requires to enable it to break out of its underdevelopment. These resources include education and training, capital for business development and the construction of the necessary social and economic infrastructure, marketing information and appropriate technology, and the ways and means to ensure higher levels of safety and security for both persons and property.

The decisions taken by our government with regard to the Urban Renewal, the Integrated and Sustainable Rural Development, and the Expanded Public Works Programmes relate exactly to the achievement of these objectives. However, for them to succeed will require that we devote more resources to these programmes than has been the case up to now.

This brings us back to the broader message communicated by the recent reduction in interest rates. This action is both a consequence of the health of our economy, and a contribution to its further growth. It emphasises the fact that now, more than in the past, our "first world economy" has greater capacity to produce the resources we need to make an impact on the "third world economy."

The nature and scale of the challenge we face requires that we approach this matter boldly, vigorously, and in a sustained manner. The progress we have made with regard to the "first world economy", has given us some, but, of course, not all the means we need to tackle the "third world economy". This puts us on a strong footing to make visible progress to free our country of the burdens imposed on millions of our people through their entrapment in a marginalised and underdeveloped "third world economy".

The global economy is characterised by its division into two worlds, the "first world", and the "third world", the North and the South, one rich and developed, and the other poor and underdeveloped. Our country contains this global phenomenon within its boundaries, resulting in the coexistence of two nations side by side, one rich and developed, and the other poor and underdeveloped.

We have it in our power to use our own intellectual and material resources to end this division. This we will achieve through a protracted process of engagement together with the poor, in a people's contract to push back the frontiers of poverty and eradicate underdevelopment.

Thabo Mbeki