



*'a wonderful  
opportunity'  
– Derek Keys*



Photos: Morice

SA Finance Minister Derek Keys speaks to DAVID LEWIS and KARL VON HOLDT about the NEF, the state bureaucracy, wage restraint, conglomerates and investment.

**LABOUR BULLETIN:** *Mr Keys, you have identified the reduction of government expenditure as a major objective. Leaving aside the massive claims for social expenditure, how do you reconcile this objective with the political dynamic in the country? How do you reduce state employment when the present regime relies so heavily on the support of civil servants, and when the ANC as the party that conceivably will be in power will rely so heavily on deracialising the civil service – which will mean employing a large number of black civil servants?*

**KEYS:** I just have to show them both – and I have been quite successful at this – that the current level of general government consumption expenditure is irreconcilable with sustainable long term growth.

**LABOUR BULLETIN:** *The current debate within the ANC on the question of sunset clauses has focused on the political aspects of this question, but not on the economic aspect.*

**KEYS:** One of the reasons for high government consumption expenditure is the structure of tiers of government. Writing a new constitution gives us a once-in-a-lifetime opportunity for disciplining what the total machine of government will cost. It is a wonderful opportunity, and it does not have to rebound adversely on either of the political parties because they are going to do it together. I think it is very important to cut consumption expenditure now, but far more important is to get that new structure so that it does not cost as much.

**LABOUR BULLETIN:** *It looks like the budget that you present in March is going to be a harsh one. How are you going to avoid a repetition of the anti-VAT campaign from popular constituencies that see no benefit in it for them?*

**KEYS:** I hope that our presentation to the National Economic Forum (NEF) and other forums will help people to put what we have to do into some kind of context. I am open to better suggestions, but there are not any soft options left. We are between a rock and a hard place.

**LABOUR BULLETIN:** *A lot of public money has been wasted through mismanagement and corruption. Can you ensure that the money you raise will be well spent?*

**KEYS:** All I can say is that any large organisation has a degree of corruption, including the private sector and no doubt the labour sector. We take the view that the reason people are hearing about this corruption is exactly because we have decided to bring it out into the open and put a stop to it. I believe that there is a substantial amount that can be saved by redesigning the machine and that is fifty times more than can be saved by going around and attacking corruption.

**LABOUR BULLETIN:** *How receptive is the machine of government to being redesigned? You are talking about radical changes rather than incremental change.*

**KEYS:** Yes, but the times are rather favourable, aren't they? People know that the way we have gone on in the past has not done the trick and is not going to do the trick. So they are ready for something new. We have got the political framework being entirely recast.

**LABOUR BULLETIN:** *Turning now to the NEF, do you envisage the NEF as a body that will strike formal agreements?*

**KEYS:** It will not quite be like that. What the NEF will do will be to reach consensus on certain issues and the different parties will then have to give effect to that consensus. I do not envisage a 40 page document with initials on each page. I do not think there is a need for that. If we get consensus then we will move off



and implement it. I do not think having a written document would be of any particular advantage if someone does not do his stuff.

**LABOUR BULLETIN:** *Do you see the NEF as a transitional arrangement or as a good way to conduct the relationship between the government, business and labour in future?*

**KEYS:** We have got a lot to learn still. It would not surprise me in the least if the structure changes fundamentally before we say that it is working right. I would say there is a great deal of momentum from all sides in favour of it.

**LABOUR BULLETIN:** *How do you respond to the criticism that the NEF is a forum for the powerful and well-organised constituencies to reach agreement at the expense of small business or the unemployed or other constituencies that do not have an organised voice?*

**KEYS:** Of course if you view life and business as a zero-sum game then one person's gain is another's loss, but I do not think that is what we are engaged in. I think it is not at the expense of, but to the advantage of. To take an example, if we could get organised labour to adopt a stand which would have a positive

effect on business confidence, it would be to the advantage of everyone.

**LABOUR BULLETIN:** *What place should incomes policy have in a strategy for manufacturing growth?*

**KEYS:** I am waiting to find out. It is a station we have to go past, is it not? Whether we decide to get off there is a different matter.

I am not as opposed to an incomes policy as some Thatcherites are. I think there is a stage in a country's development, and in the development of a relationship between labour and business and the state, where a social contract which would incorporate some sort of incomes policy, where that has a place. I do not exclude it. I am sort of feeling my way to see whether that would be a good thing or not.

If we had an incomes policy 15 months ago I think wages would not have come down as effectively as much as they have. If you want to have a small government then you have to let the market do it for you. If you want to direct everything and have everything by agreement, then by definition we are going to have a big government. And it is hard to afford that.

**LABOUR BULLETIN:** *If we do see a movement towards a negotiated incomes policy what kind of trade-off do you think the trade unions could expect in return for wage restraint on their part?*

**KEYS:** Of course there would have to be good development on the price front. We cannot hold wages down and let prices go.

But I have said to the other participants in the National Economic Forum right from the start that the economic forum is, in my view, a mechanism by means of which the three parties can take decisions which are unpopular with their constituencies. In other words, the forum can decide that government consumption expenditure should be reduced. The forum can decide that competition in the business world should be increased. And the forum can decide that there should be a measure of restraint in the increase

of wages. The forum can take that kind of view which the interested participant has difficulty in taking.

As it so happens there has been a fair amount of restraint on the wages front due to the economic situation, and the government has come to the view that it ought to reduce its consumption expenditure.

**LABOUR BULLETIN:** *In order to take this kind of decision labour will have to be able to offer some benefits to its*



*constituency. What can you offer labour in exchange for wage restraint and a lower level of government expenditure on important services?*

**KEYS:** Well, what are we trying to do? We are trying to grow the cake at the maximum sustainable speed, and we are trying to apportion the discipline needed for that to happen. A successful incomes policy should result in a higher per capita standard of living. If it does not we are wasting our time. So we can offer economic growth and reasonably stable prices.

**LABOUR BULLETIN:** *Is there nothing immediate that you can offer?*

**KEYS:** What could that be? Think about it in real terms – there is only so much in resources

in this country and there are all of us.

**LABOUR BULLETIN:** *It is generally accepted that our international competitiveness is undermined by the low level of skills of our human resources, both management and labour. Do you have any short term or medium term plans to address this?*

**KEYS:** I am generally quite pro the labour force and management. The greatest short term remedy would be to achieve consensus – that would outstrip any material shift in resources.

**LABOUR BULLETIN:** *You have no plans in terms of vocational training, on the job training, subsidies or anything like that?*

**KEYS:** There is quite a lot in place. As you know the technicians are not full.

**LABOUR BULLETIN:** *You and your senior officials have referred to the government economic restructuring proposals which are due to be published early this year. You have also referred to a new system of economic management called the normative integrative management system. What are the main ideas that you are going to put forward in these two proposals?*

**KEYS:** They are actually both the same thing. I am so glad you asked me this. Everybody expects the government to bring its restructuring plan. That is the last thing I want to do. I cannot tell you what that plan should be like. No one here does either. Fundamentally, what we want is a good description of how the economy has worked – or if it has not worked – over the past few decades, trying to correlate different trends and so on, trying to show how the economy works as a machine.

Then we want an open discussion on it. There will be some suggestions in it – for example, if we want a growth of 3,5% to 4% then

these are the things that will have to change. That is where the normative part comes in. But it will not be prescriptive, and the programmes to bring about those changes certainly will not be put forward. We have to get consensus on whether the aims we put forward are worth pursuing. Then the programmes, how we pursue those aims, have to be something we get to together. So we are trying very hard not to be prescriptive, and for very good reason – we do not have a prescription.

**LABOUR BULLETIN:** *Can you say at this stage what the main aims would be?*

**KEYS:** Yes, we know we have to increase investment. It is trite to say it, but there are only two sources of growth in an economy. The one is an improvement in productivity. There is lots of scope for that, but a whole economy cannot usually get more than 0,5% or 1% growth per year out from that source. The other source has to be the yield on fresh investments and in the last few years there have been no fresh investments. What we have had is replacement investment.

So we know investment has got to happen. But then of course how do you get there? That means talking programmes.

**LABOUR BULLETIN:** *The year has ended with some measure of success in tackling inflation. At what stage does bringing down the rate of inflation lose its place at the top of your policy agenda?*

**KEYS:** The top of my priority list was employment and still is employment.

**LABOUR BULLETIN:** *But at what stage does that translate into reflation of the economy?*

**KEYS:** Perhaps it does not translate through reflation. I am a little disturbed that we could run a deficit the size of the deficit we have run this year, with so little impact. If we cannot get

something going with an 8% deficit, then what do you need? So simple reflation does not appear to do the trick. We have got to be smarter than that, and I hope the NEF is going to show the way. But there is absolutely no doubt whatsoever that employment is the first priority for this country.

Inflation is significant, in that it has been identified by most studies as the biggest turn-off for investors.

**LABOUR BULLETIN:** *SACOB and others have argued that the cost of capital is the underlying cause of the relatively poor performance of South African manufacturing, and of course inflation does raise the cost of capital. Do you accept this argument, and what steps is government taking to bring down the cost of capital?*



**KEYS:** Funnily enough it does not seem to be so much the real costs as the notional costs. There is a far greater correlation between low rates of investment and high notional rates than high real rates. If we can keep some kind of hold on inflation, interest rates will come down dramatically. That has a great effect on confidence as well as simply making the sums come out right. So the reduction of inflation is absolutely the best thing that has happened to us so far.

**LABOUR BULLETIN:** *Turning now to the manufacturing sector, the government has been criticised across a fairly broad spectrum for its support for large capital projects such as the Columbus stainless steel projects and the Alusaf aluminium project. It is argued that these entrench the exceptionally high levels of capital intensity in South African manufacturing, and privilege the large conglomerates in our economy. What is your response to this criticism? In particular how will you encourage further downstream transformation of the products of Columbus and Alusaf in the more labour intensive manufacturing areas?*

**KEYS:** The Free State goldmines, which were the last major national effort that we had, were fantastically capital intensive, and no one would question the wisdom of having gone through those developments. In fact the government assisted them quite materially with low cost loans and so on. I would love to have lots of labour intensive projects but I do not see that capital intensive ones get in the way. By definition labour intensive projects do not need that much capital. I do not see why we cannot have both. This country has always had big capital projects. That is the first point I want to make.

The second point is that there is nothing funny about these projects, they will not need protective tariffs and they will not need export subsidies. And they will make their products available in South Africa at the world price. We are dealing with two of tomorrow's metals – stainless steel and aluminium. I know that the promoters of these projects are themselves keen on downstream developments and I am sure they will put their weight behind it.

**LABOUR BULLETIN:** *There will be no government encouragement or compulsion to take these processes further downstream?*

**KEYS:** You know, just as I think it is vital to



be a good friend of labour, I think it is vital to be a good friend of capital. I am not great on forcing people to do anything. It should not be beyond the wit of man to devise an environment in which it would be attractive to do these things. The companies involved in these projects have got a great interest in going further downstream because they will gain a greater control over prices.

I am very pleased about these projects. I will support any entrepreneur. People creating things is actually the critical point for us.

**LABOUR BULLETIN:** *The other criticism, though, of these big projects is that they strengthen the big conglomerates and so increase the concentration of economic power in their hands. What is your response to this?*

**KEYS:** I do not have a view that the concentration of economic power is bad – understandably having come from Gencor. As it happens we ran Gencor in a decentralised way. You could unbundle it tomorrow and it would not affect any of the operating units. Anglo, SAPPI and Mondi do not run that way and so for them, this is a different kind of problem.

In terms of competition, being smaller does not necessarily increase competition. SAPPI and Mondi compete the hell out of each other,

they drive competition well beyond the point that they would be able if they were entirely on their own. So it does cut both ways. It is more complicated.

From the point of view of the issue raised in the last *Labour Bulletin*, of a strong centralised management which can break a strike in an entire industry, there may be something in that criticism. I do not know enough about it to really express a view. From a strictly economic point of view it is not an issue.

**LABOUR BULLETIN:** *I understood you to say recently that large corporations come to behave rather like trustees of their funds and become less and less able to invest in projects with long pay-back periods or in smaller projects?*

**KEYS:** There are two different issues here. I was referring to the large contractual saving institutions such as Old Mutual and Sanlam. The managers of these institutions are managing other people's money so they have to be prudent and put it in safe areas. Therefore I believe that they are not the ideal instruments for encouraging new ventures and small ventures.

The system, however, will work as a whole in terms of getting investments, if the blue chip companies which qualify for trustee investments are entrepreneurial. Now there has been a tendency in the past for some of them to slip into the trustee mode – that is exactly what I found when I went to Gencor. And they have got to be energised and turned into venturers again, and entrepreneurs and risk takers. If that happens then they need more capital and they draw more capital and the whole system works. Capital circulates and reaches new ventures. If they get scared or get sleepy ...

**LABOUR BULLETIN:** *But is competition policy and unbundling not designed to do this? What happens if they are not energetic? What is the policy environment that does energise them?*

**KEYS:** Well, they should go to the wall if

they are not energetic. Or someone else should take them over. I suppose a larger group can tolerate poor management for longer, but their record is not too bad.

**LABOUR BULLETIN:** *I would like to ask a more personal question. What motivated you to move from a job at the top of the corporate ladder into government?*

**KEYS:** I have got a tremendous respect for FW de Klerk. I think he is in his milieu a wonderful gift, in terms of the kind of changes we are working on. I think anyone who gets the chance to help him should take it if he can – and I could.

**LABOUR BULLETIN:** *Would you envisage staying on under a new government?*

**KEYS:** There are so many imponderables. If I felt the same way about them as I do about FW de Klerk then that would be fine.

**LABOUR BULLETIN:** *Do you find running a major corporation similar to running a government department? What are the differences?*

**KEYS:** One of the differences of course is the span of control. I ran Gencor with six people, talking to six people. The State President has 23 cabinet ministers and that is not the only body through which he runs things. You do not get that closeness and it is much harder to build a team – he is very good at it, but it takes a huge effort to build a team with something that spreads as wide as that. Then of course one is in an organisation, but also running on one's own to a fair extent. I am quite surprised that I run as unsupervised as I do.

**LABOUR BULLETIN:** *Were you more supervised at Gencor?*

**KEYS:** Yes I was – by my shareholders! ☆