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INEQUALITY AND INCLUSIVE GROWTH IN AFRICA:
A CONVERSATION WITH SOUTH AFRICAN FINANCE MINISTER PRAVIN GORDHAN

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P R O C E E D I N G S

MR. DERVIS: All right. Good afternoon, everybody. We're very, very happy and privileged to have with us today the Honorable Pravin Gordhan, the finance minister for South Africa. And also the chief economist for Africa for the world bank, Shantayanan Devarajan, and our own Homi Kharas. I will say a few more words later.

Minister Gordhan has been active in politics since the '60s. He has served as a Member of Parliament from '94 to '98. He was the deputy commissioner and then commissioner for the South African Revenue Service. He has served as the chairperson for the constitutional committee in Parliament from 1996, which had oversight over the implementation of the new South African constitution. And he has done a lot of work also relating to local government and local empowerment. He is also now a key leader of the breaks of the emerging market group, in general. Very active worldwide beyond his own country in Africa, also. And it's really a privilege to have you with us.

Africa, I think, after a strong start and independence for many countries and then a long period of great difficulties, has had a good decade. But you know one decade, of course, is not sufficient for success. It needs to continue but it is now growing at roughly twice or slightly more than the world growth average. And I think there is now real optimism for Africa, and we are very, very happy to have at Brookings the Africa Growth Initiative, which works with African think-tanks, African partners, including South African partners, on the economic development and the economics of Africa.

We also have today Shantayanan Devarajan, who is the chief economist of the Africa region at the World Bank. He reminded me that we know each other for decades, let's say. I won't say the number of decades. He was the principal economist and research manager for public economics in the Development Research Group, and chief economist of the Human Development Network, as well as of the South Asia region.

And, Homi, my dear friend and colleague here from Brookings. He is right now the lead author and executive secretary of the secretariat supporting the high level panel advising the UN secretary general and the panel of state leaders on the post-2005 Development Agenda. He was chief economist for East Asia and the Pacific Region at the World Bank, and he's doing a lot of very, very interesting work. Among that, on aid effectiveness, on scaling up, and also on the emergence of the world middle class and what it means for growth and the structure of demand and for economic policy.

So it's a great panel, but above all we're very happy and privileged to have Pravin with us today. And we're looking forward to his perspective on South Africa, but also on Africa and anything he would like to add in terms of the overall world economy. I know he's very sensitive not just to issues of growth but also to issues of equity, of balance in society, of greater equality, of effective social policies.

So with that, I'll let him take the podium and really thank him very much for being here. (Applause)

MR. GORDHAN: Thank you very much for your kind introduction, Kemal, and good afternoon, ladies and gentlemen and to our fellow panelists as well.

It's a great privilege to be among such a distinguished group of academics because they're all academics. I come from a very activist background. South Africa being only a 19-year old democracy means that many of us who were involved in the anti-apartheid struggle can still call ourselves activists in a democratic era.

I'm also indebted and convey my thanks to the Brookings Institute for placing both South Africa and Africa and the issues that affect us on its agenda. It's a farsighted move, one which reflects the fact that there is a transition going on, probably over the next 20 to 30 years, which will see Africa coming more to the center of global attention in many, many different respects.

What I hope to do this afternoon, ladies and gentlemen, is to reflect on some of the lessons of a very young democracy --- South Africa, of 19 years --- in overcoming a multiplicity of deficits in our country, and our efforts to transform a country in virtually every sense. From its apartheid past into the vision we have for its democratic future.

I will also outline a few challenges that policymakers in our kind of context, which would include the African context as well, face at this point in time and rely on both the panel and others amongst you who have, I'm sure, lots of experience and wisdom on issues like this to share with us as well.

And we live in a period in which it's characterized by growing inequality, growth models which marginalize the majority in many, many countries. In the United States you talk about the 1 percent or the 0.1 percent versus the rest. In other countries, those numbers are slightly different, but they still reflect in many ways the growing inequality in many parts of the world.

It also is a world in which the power and wealth of the few is felt, in many respects, in many spheres of our life. And the increasing disregard for the well-being of citizens, particularly in areas where austerity measures seem to be taking the center stage in economic strategies and policies that are being implemented.

The questions today are being asked about the contribution of new technologies to greater joblessness and the quest for higher levels of productivity. In particular, it's a challenge that we have in South Africa where we have a 50 percent level of unemployment amongst young people, and a set of numbers that we seem to share with countries like Spain at the moment. The hopelessness that is experienced by unemployed youth in our environment.

We also live in a period where, if you like, a new geoeconomics is beginning to emerge and reflects a changing balance, both economically-speaking and politically-speaking. The financial crisis has raised some serious questions about both the, if you like, width and depth of the financial sector, and the influence that it has on our economies, both in the African context but more particularly in the advanced economies and the consequences that we face as a result of some of the failures that we've seen in recent times.

I take an approach which says it's very important to work with researchers and academics and inquirers, if you like, to understand the world, but the greater imperative for many of us is to answer the question, how do we change it? And how do we improve it for the larger majority that live in our environment?

When one thinks of poverty, inequality, and a lack of opportunities for our citizens, there's a growing sense that we are moving towards greater economic injustice as opposed to economic justice. I want to quote (inaudible) in this regard, and he says, what tends to enflame the minds of suffering humanity cannot but be of immediate interest, both of policy-making and to the diagnosis of injustice. A sense of economic injustice must be examined, even if it turns out to be erroneously based and it must, of course, be thoroughly pursued if it is well-founded. Then goes on to say that, “We have to go through doubts, questions, arguments, and scrutiny to move towards conclusions about whether and how justice can be advanced.” Ultimately, we believe --- I believe --- research and inquiry must take us onto a better path, in a very active sense, from the one that we are traversing today.

A few words about South Africa. South Africa's transition from apartheid to democracy was based ultimately on a set of constitutional negotiations. So, between 1992 and the end of 1993, whilst negotiating what the future democracy would look like, we actually negotiated what we then called an interim constitution. It was this interim constitution which acted as the basis for the first democratic elections, the 19th anniversary of which we will celebrate on the 27th of April. And that happened on the 27th of April, 1994.

Once the first democratic parliament was elected, we then entered into a second phase of constitution-making and crafted the constitution which governs South Africa today. And amongst the ambitions we set for ourselves is one which is reflected in the preamble of this constitution. To heal the divisions of the past and establish a society based on democratic values, social justice, and fundamental human rights. Lay the foundations for a democratic and open society, in which government is based on the will of the people and every citizen is equally protected by law. Improve the quality of life of all citizens and free the potential of each person. And finally, build a united and democratic South Africa, able to take its rightful place as a sovereign state in the family of nations.

The South African challenge and narrative in many ways acts as a microcosm, although we have our own unique history of racial oppression and exploitation amongst our people for over a century in our kind of context. The political negotiations in some ways introduce political democracy to South Africa, but in many ways our prime objective was to ensure that we create a democratic environment, democratic state, and place democratic power amongst all the citizens of South Africa.

What we didn't do was negotiate the economic transformation of South Africa and ensure, as many other independent countries in the African continent and elsewhere also, didn't and couldn't, actually, ensure that there was an agreement about how economic transformation would occur. By which we mean, changing access to economic opportunities, changing ownership patterns in South Africa, narrowing the economic gap between previously privileged and marginalized people, and in a sense we followed an uncharted course which we are still pursuing today and learning lessons from.

Interestingly, 2013 is the 100th anniversary of the Land Act of 1913. It was the 1913 Land Act introduced by a union government backed by the British government of the day which began placing 87 percent of the land surface in South Africa in the hands of a minority white population and left 13 percent of the land in the hands of the majority black population, a configuration that has influenced our history for the last 100 years and which still remains one of the unresolved issues in the South African context.

So, how well have we fared in terms of the ambitions that we have set ourselves to transform South Africa into a truly just post-apartheid society? Whilst we will continue to debate and analyze some of the work that has been done and the achievements that we've actually put in place, there are four points about our journey that I could share with you.

The first is that for the last --- for quite a while and prior to the 2008 crisis, South Africa enjoyed, what, 55 quarters of positive economic growth. And prior to Wall Street coming to Johannesburg we had a growth of between 4.5 and 5 percent. We had a debt GDP ratio of just over 20 percent, we had a budget surplus of 1.5 percent, and jobs were created to the extent of, what, 2 million jobs. Notwithstanding, the high structural unemployment that we had in South Africa.

All of that was turned around in a few months once the recession came to our shores. It didn't affect the financial system in our country, and together with India, Canada, Australia, we were probably in the handful of countries that had fairly sophisticated financial systems but unaffected by the financial crisis. And so, we lost a million jobs, or tax GDP ratio fell from about 28 percent to 23 percent and we've currently recovered to the point of about 25 percent.

What we have achieved as a result of restructuring our fiscal position post-1994, and particularly after the Asian crisis of '97, '98 is a huge change in delivery of basic services to South Africans. Results obtained through a census process and announced in 2011 for the 2011 process announced last year indicate huge quantitative delivery on water, sanitation, housing, social assistance, and many other areas.

At the same time, some of the fundamentals left behind by apartheid still remain in place. One of the best and most easily seen if you visit South Africa is the spacial segregation between centers where blacks live --- in particular, African people --- and where formerly whites have lived in South Africa. Part of the apartheid policy, for those of you who might not be familiar, was to ensure that the white CBD or the white central areas and upper middle-class and middle-class areas were separated from, in particular, African areas by a distance of somewhere between 20 and 40 kilometers. And when we were activists in the 1970s and '80s, we thought when we take over South Africa as we did in 1994, we will be able to eradicate that legacy overnight. Well, we're still working on it; I must be frank with you.

Similarly, we've ensured that there are a number of sort of public assets that our people have access to, although a lot more could be done in the South African context as well. Part of the economic story in South Africa is still the fact that our product markets are considered to be uncompetitive. We still have an unemployment rate of somewhere around 24 percent, and as I indicated earlier, youth unemployment rate of about 50 percent.

What we have done in the past 2 years is build national consensus that on a national development plan, a plan which sets a vision for South Africa for the next 20 years and tries to unify all segments of society around that plan. And I believe that we've actually obtained a great deal of consensus notwithstanding one or two dissenting voices in this particular regard.

I think similar things are happening on the rest of the continent. You would know the numbers, I'm sure, fairly easily. Today the African continent is the second-fastest growing in the region. The new IMF numbers indicate that growth will still average around 5.4 percent in the coming future. And all of this is happening in a context where we've witnessed over the last, say, 20 or so years, a significant transition from West to East. And I believe that over the next 20 to 30 years that we will see a transition from East to South. And it's that transition that will begin to place Africa at the center of the global stage.

And already from interactions I've had over the last, say, two days with various investor communities in the United States in about three or four different cities, there's a very clear indication that there's a growing realization that Africa is an interesting and important part of the future. As many of you would know, 20 years ago there was no single cell phone subscriber on the African continent. Today, one of the indicators of progress, if you can call it that, is that there are 700 million subscribers on the African continent.

Africa is at the beginning, I think, of an important growth trend to become a new poll of growth and demand in the global economy, and one which will serve the global economy well if we get the right kind of investment and the management of the results of that investment on the African continent. I think we are all familiar with its mineral resources and demographic assets, which will serve it and the world well for many decades to come.

African nations have shown sometimes through very harsh experiences the benefits of creating macroeconomic stability within the environment. And today, I imagine that they're in a position to say to some of the European countries, come and see how we've done it in order that you could learn a few lessons on how to maintain macroeconomic stability and create an environment for growth and job creation in their own situation as well.

Arising from this let me mention a few of the policy challenges that I think policymakers face, both in our own context and beyond our own context as well. The first is in relation to the impact of uneven globalization and the geoeconomic transition, which I have referred to West to East and East to South. Globalization has clearly produced significant benefits, on the one hand, but as we're learning from this crisis it's also created a huge shift in power and influence into the hands of finance capital and high earners at the expense of middle income earners, the unemployed, and the young, in many parts of the world. And those that are benefitting from these trends have acquired significant power and influence in policy-making and in decision-making.

The second is we are also learning about the importance of extractive institutions versus inclusive institutions. And here again, institutions like Brookings and people like yourselves need to help us to begin to understand how --- what does it mean to build inclusive institutions? Particularly in a context like South Africa and Africa, where I believe we still have an opportunity to re-shape the model of growth, begin to pick up on some of the lessons that we've learned about what inclusive growth means, and hopefully overcome narrow interests in the --- so that the wider majority of Africans can actually benefit from these processes as well.

The second phenomenon and challenge that we have is what one calls “crisis mutation”. What started as a sub-prime crisis in the United States quickly evolved into ratings agencies and their tripe-A rating, derivatives of one sort or another arising from sub-prime loans. That then mutated into a sovereign debt crisis, which was then connected to a banking crisis. And today, we hear talk of some $2- to $4 trillion dollars being required in order to capitalize European banks in order for them to become more stable than they currently are. And this crisis mutation now reaches the point where an island has huge financial sector, way beyond its GDP and it's investment practices and other financial controls being weak begins to send ripples of uncertainty throughout the world.

So what we have, ladies and gentlemen, in this mutation of the crisis is what I would call a serial non-resolution of the crisis, where 'kicking the can down the road' --- I think that's an Americanism --- has become a permanent phenomenon where you change one major cliff into several mini-cliffs and hope that the mini-cliffs will be easier to manage than the big cliff. Where you make the promise of creating new types of European institutions and hope that the promise of that alone would reassure different role-players that Europe is on top of its game.

And instead, what we have is a continuation of crisis, a continuation of uncertainty, and countries like South Africa and, indeed, many parts of the African continent as well that have a colonial link with the European environment either in terms of export of commodities or export of manufactured goods --- the non-resolution of the crisis in that environment then begins to have a negative impact on our growth prospects as well.

Part of the challenge around the crisis is also the heated discourse which I heard even earlier this morning in another place between advocates of immediate fiscal consolidation and austerity, on the one hand, and the advocates of fiscal stimulus and a more activist approach to managing this crisis and stimulating growth and job creation. And the result of this debate and a non-resolution of the debate is that we now begin to enter a downward spiral in respect to growth uncertainty, particularly in the advanced economies but also with significant impact now on the big emerging market economies as well.

What, then, would be from some of these experiences the key elements of an inclusive growth agenda? Which we could use certainly in the African context, but in a wider context as well. Clearly a stable macroeconomic environment is important, but we've also learned --- I think from the past 10 years or so --- that that alone doesn't solve all of our problems but is an important and necessary factor to have in place.

The second, for many of us on the continent and elsewhere, creating the right microfoundations for economic growth is also an important challenge. So, ensuring that we have the right education policies, industrial and trade policies, labor market policies, competition policy, and practice is going to be a crucial part of ensuring that we create the right structural environment for growth, job creation, and inclusivity.

Thirdly, certainly on the African continent we are at the threshold of moving from merely exporting what we dig out from the ground or grow in the ground to asking important questions about creating competitive light manufacturing sectors and other industrialization forms on our continent. And there are questions being asked in Southern Africa and other parts of Africa about how value addition takes place on the African continent, and that the continent is not just a site of new forms of extraction that colonialism itself practiced many years ago.

Another important element will be how we grow and nurture the informal economy. There are elements of discourse which say that the informal economy is not important, and that formalization is the imperative that everyone needs to pursue. On the other hand --- certainly we notice this in the South African context --- our informal economy is fairly small, and the extent to which people take their own initiatives and create a dynamic for themselves that would benefit them economically is one that is growing but still inadequate.

Equally, how we build a link between the financial sector and the informal economy is a terrain that we are entering in South Africa. So we are asking the banks, the insurance sector, and others important questions about developing new products at low cost, which will ensure that even people in the informal economy have access to some level of sophisticated financial products as well.

Yet another element and one of the last few that I want to mention is the whole question of the MDGs and the work that Homi Kharas is doing on the post-2015 agenda. The MDGs having set important goals for all of us around the globe to follow. The one danger that I'm sure he will report on or talk about at some stage is to what extent the MDG exercise became a tick-box exercise. And secondly, what is the relationship between a quantitative delivery --- we're delivering water or education or giving more people access to some of these facilities --- and the quality of the product that is actually offered? Because that's the next, if you like, height that we need to migrate to in our sector.

Finally, two points. One is the role of the private sector. No talk of inclusive growth or job creation or alternative growth models and dynamism can happen without some serious inquiry into how do we begin to develop a private sector that also understand what inclusivity means? And which is able to dedicate enough energy and resources to developing business models which, as they have incorporated the double bottom line and now the triple bottom line --- and perhaps we're heading for a quadruple bottom line --- one which ensures that the private sector consciously contributes to more inclusive societies and distribution of benefits than they currently are doing, certainly as major employers in most of the societies we come from.

And the last point in this regard is, how we create capable and effective states is a challenge that we as a young democracy are facing in South Africa. It's a challenge that many states on the African continent are facing. How we budget, how we deal with debt, how we create debt markets within the African continent, how do we implement good policies rather than just talk about good policies? How do we develop good public servants and public services? These are important challenges in order to maintain the right balance between government as a promoter of social justice and an appropriate intervener in the market. But also, importantly, as a collaborator with the private sector itself.

So, I hope I've, as a former activist, agitated you sufficiently with some of these questions. But let me leave you with a quote from Mr. Mandela, who will be 95 in July this year. And it says the following: Let there be justice for all. Let there be work, bread, water, and salt for all. Let each know that for each body, the mind and the soul have been freed to fulfill themselves.

Thank you. (Applause)

MR. DERVIS: Thank you very much, and I think we are going to be mic-ed. Okay, Homi. Why don't you try to react a little bit, give your perspective. You know, we'll have a conversation afterwards but if you take five or six minutes now.

MR. KHARAS: So, I've got nothing to say. (Laughter)

SPEAKER: He's thinking.

MR. KHARAS: I thought I would start by really focusing on the completely different worlds that seem to exist between the macroeconomic world --- especially in Africa today, where growth has been good. We see 6 percent growth rates that have now lasted over a decade, also, et cetera --- and the world where people live. And the World Bank --- I'm sure Shantayanan will say something about these numbers --- but the Bank just came out with new numbers on poverty in Africa. And the numbers of people living in absolute poverty continue to grow, year after year after year. And what is more, the average income of the people living in poverty has not risen over 15 or 20 years.

So, it's almost as if you have these two completely different worlds. You do have this world where the macro level is looking, you know, much more robust from almost any indicator that you can think about, and then the world of individuals and families which seems not to be moving. And that's something actually which is quite a new phenomenon for development. When you looked at Asia in the past, the link between their growth rate and the reduction of people in poverty --- and even if people weren't coming out of poverty, they were actually always earning a little bit more, and later on they were able to bring themselves out of poverty. But you clearly saw the opportunities in the society filtering down all the way.

So, we all know trickle down doesn't work perfectly. We all know that a rising tide doesn't lift all boats, but we also know that in the case of Asia economic growth actually helped lift millions of people --- probably actually hundreds of millions of people --- out of poverty. And that process doesn't seem to be working to the same degree in Africa as yet. And at its heart, it seems to me that this question about inclusive growth is really a question about the links between these two different worlds. And I would kind of wonder whether those links aren't present because some really important channels seem to be broken.

So, the first I would talk about is women. For whatever reason, the participation of women in economic life --- especially in the formal sector. I'm not talking about agriculture now where, as I understand it, women actually do most of the work in Africa. But in the formal manufacturing, the diversified sector, there isn't as strong a participation of women as there is in other regions.

And without that, frankly, it's very difficult for growth to become inclusive. A great deal of Asia's success happened –-- when everybody talks about the export-led success of Asia, actually what they're talking about is the success of generating industries which employ a ton of women. It's electronics and garment sectors. And if you ever go to an electronics or a garment factory, it's entirely populated with women who are earning wages. That gives you a two-income family. As soon as you get a two-income family, all kinds of things change at the micro level in terms of household dynamics. People start to save a little bit more, they educate more in their children. We know that they have fewer children, the age of marriage gets postponed, fertility rates come down.

A number of things at the household level change as soon as you have two-income families. And the quickest way of getting big increases in household income is not to fight to get slightly higher wages --- maybe it could be 5 percent one year, 6 percent another year for the principal wage earner. Let's add another wage earner. So, I would say that's one big channel which is not yet working well increasingly, in many countries.

Sometimes it's got to do with the issue of conditions for part-time work. There are structural issues that prevent women from entering the labor force because they also have to do all kinds of other things. They have to take care of sick family members. They have to take care of their children. They may need more flexible conditions than the conditions that are always offered.

The second channel is young people. If you don't get that first job, you never ever get the experience and the connections and the skills that allow you to get the next and the next and the next jobs. The first job is both the hardest to get and it's the one that actually directly places you and leads you to all the future jobs in your career. And that's true in advanced countries like the United States and it's true in a developing country. And a major problem in developing countries today has been the ability to get young people that first job.

Now, whether that's to do with the skills that they have coming out of school or whether it's to do with the competitiveness of the firms that are employing them, it's hard to know. But the only driver of new jobs has been government, and that's a problem because government can't continue to do it and certainly can't do it for everybody in society. So, thinking much harder about what it takes to get young people into a type of employment that then leads to better future jobs later on is hugely important.

And that, in some sense, I think, is when the Minister talked about the informal sector is partly what he means. The informal sector is actually a very heterogeneous sector. You have jobs in the informal sector of, you know, people coming and trying to sell you something when you're stopped at a traffic light, for example, and you have jobs in the informal sector which are, you know, innovative and creative and are leading somewhere. We need to find out ways of getting the jobs that actually lead to further jobs in the --- whether it's the informal sector or elsewhere.

And then the last observation I would make on this is there's a lot of focus that's been placed for inclusive growth on jobs for unskilled workers. But you can't create jobs for unskilled workers if you don't have dynamic and competitive firms. And you will not have dynamic and competitive firms if you don't have skilled people in those firms.

So, it almost becomes a catch-22. If you focus entirely on “the direct measure” of trying to have real advances in primary schools and primary education and making sure that everybody at the least-advantaged members of society have the skills they need, and if by doing that you squeeze all the resources out of the top end, you never get the firms and the opportunities to actually employ the people at the bottom end. So the so-called “knowledge workers”, the scientists and the engineers, the people who sit in companies that actually make those companies work --- if you don't have those people in place, they don't create the other jobs. And in the discussions that sometimes we've been having with the most dynamic firms in Africa, the number one constraint that they all talk about is the constraint of skilled talent. There are many firms who think that the conditions are right in Africa for tremendous expansion, but they can't get the right people.

And so that, I think, is really also a matter of thinking hard about who is going to create the skilled jobs --- I mean, sorry, the un-skilled jobs. And if you think it's going to be the private sector then ask, well, what's the constraint in the private sector? And the answer may not be the unskilled don't have enough education. The answer may be we simply don't have enough accountants and managers and engineers and others who can really make these companies thrive and be more efficient.

Let me stop there. Thanks.

MR. DERVIS: Thank you, Homi, for these thoughts. I think the two-worlds image and the comparison to Asia is very interesting. But in a different context, there are these two worlds in many parts of the world today, including in this country. As Minister Gordhan said, you know, more than 90 percent of income gains post-crisis accrued to 1 percent of the population in the U.S. So, there is also the two-world phenomenon not just African but it doesn't have the same strength everywhere. I'm wondering whether it's not also beginning to be stronger in Asia.

With that, I turn to Shanta.

MR. DEVARAJAN: Okay, thanks very much. And thanks for inviting me.

I think both Homi and the Minister Gordhan asked the right question which is, from the point of view of Africa --- which is, yeah, you're seeing all this growth, this 5 percent growth, for a decade. Why is it not translating into poverty reduction? And I think this is real. A taxi driver in Senegal said to me, I can't eat growth. You know. (Laughter) He was right. They're seeing all this growth and all these statistics coming from the World Bank and others --- and by the way, this booklet that contains most of what I'm going to say is out there for you to read. But they don't feel it in their pockets.

And the question is --- and I think it's real because of some of the numbers that we're seeing. That there is poverty reduction in terms of the percentage of people living on $1.25 a day. But it's not translated into absolute numbers. And even that percentage of people living on $1.25 a day that's going down is not going down very fast. Not for the level of growth we're seeing, you know. For every percentage point of growth, the percentage reduction in poverty in Africa is about 1/3 what it is in the rest of the world. And that's very disturbing.

So, I think the question is “why”, and I'm going to offer a little bit of maybe somewhat of a reaction to what Homi said as well on that. First of all, one of the main sources of this discrepancy or this slowness is the fact that much of this growth in Africa has been in resource-intensive countries --- resource-extractive countries. So what you have is this phenomenon where the growth is going on in the extractive industry and most of the poor are in agriculture. 70 percent of the poor get their income from agriculture, and agricultural productivity hasn't been growing.

Now, the problem is that even in the resource-poor countries we haven't seen agricultural productivity growth anywhere near --- Africa has one of the lowest levels of agricultural productivity in the world. But actually, you would say, well, then why can't they translate that resource revenue into poverty reduction? And that's where the real problem arises. Because there's a fundamental failure of governance. This is the extractive institution that Minister Gordhan was talking about. We have it in spades.

You have a country like Gabon. Gabon has a per capita income of $10,000 and it's only 1.5 million people. They have the lowest child immunization rate in Africa. They have a lower immunization rate than Togo or Eritrea. That's not because they're lacking resources. There's a fundamental capture of those resource revenues to the non-poor.

But then, you know, you say, well then the answer is easy. Why don't we just try to boost agricultural productivity? And that's what really is disturbing me, because the attempts at trying to increase agricultural productivity are subject to the same extractive institutions that are troubling some of our resource-rich countries. So, you know, the classic case, our fertilizer subsidies. Governments spend 5, 10 percent of GDP on fertilizer subsidies, and guess what? They go mostly to the large farmers. The small farmers, who are the ones who are supposed to benefit from it, usually don't get access to it.

So in Tanzania, they introduced a voucher scheme. So, farmers got a voucher with which they could buy fertilizer so that you let the market actually play some role in it. 60 percent of those vouchers went to families with politicians in them. Right? That's what we're face with.

But let me get to service delivery, because I think the skill issue that Homi was talking about and Minister Gordhan alluded to is fundamentally a failure to build a human capital of Africans that we're facing. And it isn't --- and I think Minister Gordhan said it right, which is we succeeded on the quantity side.

In education, pretty much all Africans are going to school, at least at the primary level. But it's not clear they're learning. You know, they did a survey in Tanzania of 7th graders. So, these are kids who have been in school until 7th grade. And 20 percent of them couldn't read a sentence in Kiswahili, and 30 percent of them couldn't do a 2-digit subtraction problem, and 50 percent of them couldn't read English, even though English is the medium instruction in secondary schools. So, that's where you're going to get your skills mix problem.

And health is even worse. The problems in health --- there's tons of money going into health, but in a country like Chad, for every dollar that is non-wage expenditure for health, the percentage that gets to the clinic is 1 percent. So, we have a leakage rate of 99 percent.

And then another statistic that I find really quite disturbing is the total amount of time that doctors --- public doctors spend seeing patients in an 8-hour day in Tanzania is 29 minutes. In Senegal it's 39 minutes.

So, all of --- and I would attribute all of these to a fundamental failure of governance. That you've got teachers' unions that have captured the teaching business, you've got medical unions that have captured the medical business, and you've got a fundamental failure of governance in the resource-rich countries.

Actually, in the resource-rich countries let me add that the problem really is that unlike tax revenues, oil revenues go directly from the oil company to the government without passing through the citizens. So frequently, the citizens don't even know how much tax revenue they --- how much oil revenues there are, let alone have as much of an incentive to scrutinize how governments spend it. If you don't know, you don't know how much they're squirreling away.

So in the midst of this depressing litany, let me just add on an optimistic note.

MR. DERVIS: Thank you. (Laughter)

MR. DEVARAJAN: No, because I do believe --- my blog is called *Africa Can*, so I have to. I do think that we can overcome these problems. And the reason for that is to go back and ask why have we seen this growth? This 5, 6 percent growth. This 6 percent growth is double what it was the previous decades. Right? How did that happen?

Well, there were several factors but, you know --- increased external flows, buoyant global economy before 2008. But a fundamental reason is that the quality of macroeconomic policies has improved in Africa, as the Minister alluded to earlier as well. Maybe we should give some technical assistance to Europe these days.

Just you know, the average --- the median inflation rate in the 2000s was half what it was in the 1990s. And fiscal deficits are down, current account deficits are down. So, they were --- and the point is that this was not by accident, and this was frankly not by the World Bank and the IMF's advice. This was owned by the policy-makers themselves.

You could see that during the global economic crisis. When the global economic crisis hit, there was plenty of opportunity for these governments to actually reverse course and start running big fiscal deficits because that was what they were doing in the developed world anyway, right? They didn't. They actually stayed the course and they continued to follow prudent macroeconomic policies, and as a result Africa rebounded. Within one year, growth rebounded to about 4, 4.5 percent.

Now, the reason I'm optimistic is that if African policy-makers were able to overcome the political resistance to macroeconomic reforms --- and this resistance was pretty rough --- they may be able to overcome the political resistance to the microeconomic reforms that are necessary to translate that growth into poverty reduction or accelerated poverty reduction.

MR. DERVIS: Thank you very much.

Well, I would like to ask Mr. Gordhan any comments you may want to add. But one first question also I do have is about the linkages between African growth and emerging market growth, China, U.S., Brazil. I mean, do we have a new strength of these linkages? And how did the crisis --- the 2008, 2009 crisis --- specifically through what channels did it hurt the most? It's something I wanted to ask you.

But also, then, you know, any comments you may have on what Homi and Shanta said.

MR. GORDHAN: Yeah, in that sense we do live in an integrated world, so to speak. So, the channels largely that impacted upon --- or through which impact the recession was felt on the continent was, in the initial stages, trade with the developed part of the world. And then in the latter stages as the slowdown began to impact upon the bigger emerging market economies, you saw commodity exports and price volatility beginning to impact on the continent as well. So, in that sense trade became an important challenge.

What we also discovered is that trade finance was largely through European banks. So as European banks found themselves getting into difficulty and their finance began to dry up, that began to impact on trade financing as well.

Another challenge is, let's call it extraterritorial impacts of decisions made in one place. If we look at the steps taken against Iran, those countries which included Asian countries as well that imported the Iranian oil found themselves in some difficulty, which included South Africa. And then you had a fascinating contradiction that we actually had to deal with where the United States authorities would grant exemptions from some of the provisions that impact on other countries, and then you find that insurance of the tankers that transport oil comes from Europe or European companies. But they won't grant any exemption, so you get an exemption from the one party who is purchasing oil but you can't get exemption from another party in respect of the insurance side. All sorts of companies made alternative arrangements as well.

In respect of your first question, I think there's some new data which seems to indicate --- coming from the World Bank –-- that 50 percent of world trade now is South-South trade. I think if you compare that to even five years ago, that's a significant qualitative shift that that's actually occurring.

If you take the instance of South Africa, about 30-odd percent of our manufactured goods used to go to Europe. The SADC region now has become --- in a very short period of time, probably around two years --- the major importer of manufactured goods emerging from South Africa.

So, we are certainly living through a period where there's rapid changes and realignments, actually, occurring. And in much of the discourse, as I pointed out, between Africa more generally and some of the bigger emerging market economies, the discourse is certainly about not continuing along the extractive part but finding new ways of creating human capital, financial capital, infrastructure development, and other forms of investment on the African continent that improves the growth potential on the continent.

I agree with Homi on the two worlds, and you've made a correct point that the two worlds are fairly universal, although there must be some exceptions in this particular regard. So the real question is: how do we give more content to the concept of inclusivity? And what are the policy levers that are actually available for governments and societies more generally to build consensus around what inclusivity means, how you get better benefit sharing? To many of us, it appeared to be in the morning mode and in the observing mode, as opposed to asking how do we remedy some of these situations.

The second is that I think we must also admit that politics has a lot to do with economics today. Many of these cliffs and the cans that I referred to earlier on are not so much about economic policy any longer but about politics within both the global environment and specific regional environments or country environments as well.

So increasingly, we need to focus on the political economy of some of these questions and ask how democratic institutions work, what the balance of influence is within those democratic institutions, how the vested interests operate within these institutions, and to what extent formal democracy is actually not left precisely there as a formal democracy. Come vote once in five years. And the vested interest capture various policy terrains or various parts of the state --- or politicians, for that matter --- and then exert immense amounts of influence, which in some ways sustains the two worlds.

It's a point very similar to Shanta's point as well. Why do we have some of the observations that he's made? And clearly, what's required is a new discourse around the globe. We now have MDGs and we have, for some decades now, been talking about democratic governance and the standards of human rights that we actually expect. But I think we now need to go beyond that and say, what's the politics of inclusive growth? And what are acceptable values, leadership styles, and norms that are acceptable in this new democratic environment in which sharing of benefits is as important as the creation of benefits at the end of the day?

Thank you.

MR. DERVIS: One question really to any one of you. Is technology --- because this lack of inclusive growth that one sees in so many parts of the world, and to put it in terms of numbers of poor people? It has a lot to do with employment I would guess, right? And I know from other countries also. Is technology both a blessing and becoming a problem? Does one see the degree of labor saving in the technology that is --- you know, that creates at least short- to medium-term problems? In the long run, maybe things will work out.

But when one looks at China also, the growth rate of GDP versus the growth rate of employment is very, very different. Now, GDP grows very fast so, you know, things are okay, but even with that huge GDP growth it seems that employment has much more problems expanding than in the past.

MR. GORDHAN: I think recently there's been some interesting observations within the public domain. That pursuing technology mindlessly is now beginning to create problems in terms of job creation.

I visited a --- let's call it an automotive --- I don't know what you call it in America. We call it “cars”, eh? Automotive manufacturer in South Africa. And what is fascinating is to see these new robots and how they operate. You can virtually have a robotized factory that does everything, without a single human being around, except for fixing some nut or bolt that falls out of place.

The management there made a conscious choice that certain things will have robots only and certain parts of the production line will involve X number of workers, so that the vast majority of workers that they had prior to new robots coming in will still have a job. But that's a conscious choice made in favor of encouraging and sustaining employment.

And that's the point I was making earlier on about the role of the private sector. That business models have to start --- just as much as they looked at the environment in the last 10 years, have to now start looking at inclusivity. And if jobs are at the heart of inclusivity, then creating and sustaining jobs has to be at the heart of a business model as well.

Now, I know that a battle that some people have given me and others in

South Africa --- one business person in particular says, when I get up in the morning I don't ask myself how many jobs am I going to create? I ask myself, how much money am I going to make? That's a fine contradiction to put to us. But how do we get more people thinking about jobs as part of the challenge ahead of us?

MR. DERVIS: Shanta?

MR. DEVARAJAN: I want to go out on a limb and say that technology is unambiguously a good thing for low-income Africa. I do take that South Africa is somewhat different. But for most of low-income Africa --- and this is a bit of a comment on my good friend Homi's remarks earlier as well. 70 to 80 percent of the labor force is employed in the informal sector. These formal sector labor forces that Homi was talking about --- the private formal labor sector force is about 10 percent.

Now for the majority of these people in the informal sector, they are literally small-holder farmers or household enterprises. Literally mom and pop shops selling vegetables or doing some sewing and things like that. And unfortunately, the historical evidence is that they very rarely grow into bigger firms. They actually either stay as tiny enterprises or die.

Now, for those people simple technology, like a cell phone, as Pravin mentioned earlier, is enormously valuable. You think about how farmers now in Niger are able to get price information before they set out to market. So they can actually choose which road to take to sell their wares, and you find that the prices are converging very fast as a result of that. And you see in education and health the use of cell phones.

And I would go further and say in terms of governance --- we talked earlier about how governance is our biggest constraint. Now with smart phones there's a possibility of two-way communication between the government and the people, including people located in very remote areas. And as you know, Africa is quite sparsely-populated, or parts of Africa are. And so, these people now have an ability not only to learn about what government is doing but tell government what they think of what government is doing, including tell government that the doctor in the clinic is not there or the teacher is not showing up in the classroom.

So, I can only see an up side to technology.

MR. DERVIS: Okay, but let me ask you the following question. The work of Danny Rodrik, the economist at Harvard and some other work, has shown that in the past the kind of Lewis model of the modern sector absorbing at a fairly rapid pace labor and population from the informal sector was the main driver of growth and was, you know, also an equalizer in the sense that people with much lower productivity and poorer from the informal sector got into the labor sector.

Now, partly because of technology in the modern sector, the modern sector actually is growing without creating employment. In other words, the share of the population in the informal sector in many countries seems to be stuck. So while you may be right that technology helps a lot --- I mean, I'm just asking, I'm not arguing this is necessarily so. But while the technology as you said --- for the reasons you said, has huge advantages for people in the informal sector, on the other hand it may be slowing down the movement of these people into the modern sector.

MR. DEVARAJAN: Well, the truth is the phenomenon is happening in Africa but for a completely different reason. In fact, the modern wage sector --- the formal sector is creating jobs in Africa at a very rapid clip. Ghana, Tanzania, Kenya, Uganda, Rwanda --- the formal modern sector is creating jobs at around 8 to 10 percent a year, the growth. The trouble is from such a small base that that's not enough to absorb the large number of young people entering the labor force because of the huge youth bulge that Africa has. We have something like 2 to 3 million young people entering the labor force every year.

So, what you're observing --- that the modern wage sector isn't --- that the labor force is still heavily in the informal sector, even though the modern wage sector is growing very rapidly.

MR. DERVIS: And apparently in a number of countries the share is not changing.

MR. DEVARAJAN: Yeah, but the share is not changing because of the supply phenomenon. That's what I'm saying. That you can still grow but there are just so many young people coming in that in fact the --- in some countries we're actually seeing the share of the informal sector grow over time. But that's not because of technology, that's what I'm saying. It's because of demography and initial conditions.

MR. KHARAS: You know, I think the place where the jobs are happening is in services. And some of those services are formal and modern; some of those services are in the informal sector. But the big change in the world is that countries at relatively low income levels today have very, very large service economies. So, even a low-income country today probably has at least half of total GDP and a greater fraction of that, sometimes, of labor in services.

And services employment is actually doing quite well. So what used to be the big transition, which was from agriculture to industry and then as an economy became much richer, then from industry to services –-- that kind of linear development strategy, I think, has broken down. And it's broken down partly because what used to be done in a firm, what we used to count as being manufacturing, now is broken up into lots of different tasks. And so it may be exactly the same tasks, exactly that same process, but we're just counting it differently.

So you know, the dynamism that you see with people using technology I think actually is there --- is very prevalent. I mean, you know, East Africa has an enormous amount of people using technologies in very innovative ways. I have to agree with Shanta that, you know, ICT by itself can improve agricultural productivity by 20 percent --- if there are 2-1/2 billion people in the world with no access to any kind of formal financial services, that means they have to go to money lenders, that means they have no ability to control their cash flows, which are very uneven because it's all very volatile. You solve that by giving them access to checking accounts and savings accounts. 20 percent improvement in their well-being.

So, you can get, you know, big jumps by fairly simple uses of technology. And what's interesting is that the countries where new technologies --- mobile phone technologies have been able to, you know, penetrate massively are also some countries where governance issues have been problematic. You don't need to have the government to do this for you. You just need to have them stop stopping it from happening.

MR. DERVIS: All right. We'll open it to the floor now. I think this was a very interesting debate. And there is one gentleman there who is, you know, absolutely ready to ask a question. I'll take two or three and then come back.

Please be --- identify yourself, please, and be short.

MR. WOOD: Thank you. Barry Wood from *Money Web* in Johannesburg.

Minister Gordhan, I wonder if you could reply to a couple of the issues that were raised by Mr. Kharas in terms of putting women to work and getting that first job for people. There would be those in South Africa who would argue that part of the reason that South Africa's growth rate is trailing behind Africa as a whole is because one of your partners in government really doesn't like the idea of market wages in the Chinese model to put women to work.

My other question is, in terms of breaking that stranglehold from European or American banks, how is the progress on the BRICS bank? Is it going to function soon? If so, when and how will it operate and from where?

MR. DERVIS: Okay, I'm going to take three questions at then turn. Yes, the lady --- yeah, you go, and then the lady in the back. You go first.

MR. FRIEDMAN: Thank you very much. Lawrence Friedman from the Africa desk at EIR. I think one point that all the speakers are touching on is that economic value has different meanings. Monetary values in the financial sector, especially, are not the same as real economic value that produces wealth. And I think what we hear from the IMF and World Bank, with all due respect, is measurement of a lot of monetary statistics and monetary value, but we should look at per capita what is the energy per kilometer? What is the output per hectare? What is the consumption per capita of real economic growth?

And I think I wanted to ask the Minister about what are the plans for this in South Africa, because you're right in pointing to Spain. I mean, with 50 percent unemployment it's like Sub-Saharan Africa for its youth. And I think this signals the death for the Euro system. Without Glass-Steagle reform, there's not a chance of the financial system to last, making it. But then what kind of credit policies --- not money, but credit --- for future production are we going to be able to get in South Africa and other African countries that are not going to be measured in monetary values but real economic physical wealth for the development of the society?

MR. DERVIS: Yes, the lady there.

MS. BARRY: Sarah Barry, John's Hopkins. I wanted to ask Minister Gordhan if you think land reform has a role to play in building the agenda of inclusive growth that you spoke about earlier. And if so, what does South Africa need to do to reverse the so far rather disappointing results of the very ambitious three-part program of land reform that was adopted after 1994?

MR. DERVIS: Pravin?

MR. GORDHAN: Sure.

MR. DERVIS: I think most of the questions were addressed to you.

MR. GORDHAN: Homi said he'll answer some of them. (Laughter)

It's interesting to see South Africans in this audience, other than ourselves. So they bring a particular brand of South African questions to us.

On the BRICS bank, we are in the very early stages of an interesting process. Which is saying that you have BRICS as a, if you like, political formation which is now being underpinned by practical projects that we could work on together. So, interestingly as we sit here, the BRICS deputies are meeting elsewhere in Washington preparing for a finance minister's meeting tomorrow and central bank governors to advance some of the work that the leaders have agreed on in South Africa in the last few weeks.

On the bank itself, we have agreed on the concept. We've agreed on the need, we've agreed on a broad mandate. We've agreed on what we don't want to do, and we've agreed on what we want to do. A number of technical areas have been canvassed and in the course of the next six months we'll begin to answer more clearly questions like, what capital do you want to start with? How much of that will be callable? How much of that will be paid in? When will it be paid in? Where and how will the staff be recruited? Where will it be based? Who will we lend money to? Who won't we be lending money to? And so on.

So, I think we've made good progress. Our mandate for Durban was to report whether such a development bank is feasible and viable. After one year's work we are able to actually say that it is both feasible and viable, and it's going to be an interesting project if we can pull it off. And lends greater diversity to the kind of institutions that can be involved in both marshaling capital, on the one hand, packaging it in a particular way that meets our own requirements, and ensuring that we get long-term investment both in the African continent and other developing country areas as well.

Putting women to work. I think there's any number of projects, I'm sure, in many countries that are represented in this room, to encourage that. Certainly politically the organization that I belong to, the African National Congress, has a 50 percent policy in terms of representation in its political structures and in representation in Parliament and other legislatures around the country as well. And there's few countries around the world that will match us at that level.

But much needs to be done to, for example, get finances to women, to support women-based small businesses and microbusinesses. And your point about the first job that Homi mentioned is something that we've been, if you like, debating in South Africa for the last two years or so. Interestingly, I think today was the day an agreement was being signed between labor, government, and business consolidating a package of initiatives in respect of encouraging youth employment. And in particular, the idea of an incentive to the private sector to give young people their first job opportunities.

There's always a debate around these sorts of issues because established work organizations will say you can do X and Y but you must give us the assurance which we are designing these products to actually do that no existing worker will be losing their jobs as a result of young people coming into the workforce, which is a legitimate understanding.

I don't really know what you mean by “Chinese wages”. There's yesterday's Chinese wages and there's tomorrow's Chinese wages. For those of you that know better, you'll know that they are quite different. As part of any human rights regime and social justice system, you need to ensure that people get a fair living wage. And part of the struggle against apartheid was about getting people to a living wage. How we do that in an environment where there is lack of skills on the one hand, shortage of employment opportunities on the other hand, is part of the challenge that we are experimenting with.

And so for example, in February of this year we said that we will provide --- we've provided incentives for learnerships at the moment, to get people into a workplace and over a two-year period employers can get certain types of tax deductions for giving people both work opportunities, but also training them in particular areas. We've said that we are going to create special economic zones, and within those zones there will be work incentives to employers who want it as well. So, I think different parts of the globe are grappling with this question in very different ways.

Lawrence, I think you make an important point about monetary value and economic value, and the economists on my right are better-placed to answer that question. But where you're right and where there's an increasing set of voices around this question is, what do you value in society? And is it, as (inaudible) would call it, the GDP (inaudible) that just look at the GDP numbers and are quite happy with those numbers? I think Homi was making reference to that. Or are we looking at a wider set of issues around well-being? Kemal was talking about somebody at Brookings was an expert on happiness ---

MR. DERVIS: Carol Grant.

MR. GORDHAN: And for those of us who are over 60, there was very exciting news that people over 60 are the happiest. (Laughter) According to him. So, I'm not sure who is over 60 on this panel, but they are reputed to be the happiest.

Credit policy and future production? I think this is a challenge in many parts of the world, including South Africa as well. How do you get money to the real economy? How do you make sure that you have the right kind of products for the right kind of people? And that's one of the challenges in South Africa. That what we've inherited is, if you like, two economies and two societies in one. And right now, the products are only for, largely, the one society and the one economy. And I think both Africa and in our own context offers fascinating opportunities for what some people have called frugal innovation. New ways of creating products which are cheaper, better, more accessible, more affordable. Shanta talked about some of them here. Which could open up a whole lot of new possibilities for innovation outside of the very high-tech environment in which some of the institutions in the United States or elsewhere in the world would be operating.

And secondly, we --- I mean, in the banking system or the financial sector as a whole, how money can better percolate to real businesses and the real economy is one of the stories that I think we've all been talking about, particularly in the last four years. So there's a lot of quantitative easing and other forms of monetary stimuli in the system, but is it getting to the right places? Or is it ending up in the wrong hands for the wrong reasons, creating a new set of problems that we might be sitting here in a year or two and discussing as well? As we now look at a new generation of asset bubbles and so on emerging from some of these exercises.

On land reform, it's a complex question. Particularly in South Africa because on the one hand part of the grand deal that gave us both the interim constitution and the final constitution and the political agreement which today we can celebrate as 19 years old is the property clause in the Bill of Rights. But there was also a proviso which said that if there are certain legislative provisions, we don't have to stick to market value and that there can be a just basis for appropriation of land as well. That's on the one side.

There's been significant land restitution processes that have been advanced, and a lot more that still need to be done. But one of the experiences is that restoring land or giving access to land is one thing. Having the supportive machinery to get people to till the land and keep it as productive as it might have been at a particular stage is another set of challenges. And that takes me back to my point about an effective and supportive state machinery that is able to back up any of these initiatives that we actually put in place.

Homi?

MR. DERVIS: Thank you very much. Let's take maybe two more questions and then --- the gentleman in the back there, yeah?

MR. OSSIKA: Thank you very much. My question comes ---

MR. DERVIS: Please identify yourself?

MR. OSSIKA: My name is John Ossika and I am from APT Associates. And my question, I think, could be answered by either Shanta or the Honorable Minister. The relationship between the BRICS bank and the Bretton Woods institutions. Probably you have already talked about this. What is the BRICS bank going to do which is different from what the Bretton Woods institutions are doing? Are they going to be duplicating what is happening? Are they going to be complimenting them? Or are they going to compete with one another?

Thank you.

MR. DERVIS: All right. And, here.

MR. SEC: Thank you very much. Midam Sec, I am economics instructor at (inaudible) College, Alexandria campus.

I wanted, first of all, to come back to what the Minister had said earlier about GDP. You know, we measure economic growth when we look at the value of the GDP, which is the market value of all goods and services produced within the country in a given period of time. We have mostly extractive industries. We don't put value on those. They are extracted, they take it away. So you look at the GDP, it is growing, but you look at the GNI and nothing is happening because the money doesn't stay in the country. So, you have economic growth but no one is benefiting except those who take the wealth and take it away from the continent. And this is our problem. GDP is growing, but there is no GNI. And that is one thing maybe you have to look at.

The other thing is probably about the high-tech and low-tech. Technology, you need to differentiate those two. Low-tech is wonderful for Africans. It is bringing a lot of efficiencies. Smart phones, cell phones, and the domain of health or production getting a better price. But high-tech is not there yet, and I think it's scary. It is scary because we saw what it is doing right now here. Jobs are coming back from China because we can have more productive manufacturing jobs here using high-tech. And if we use them, we have fewer workers. As we have fewer workers, unemployment stays high. And we can reach a certain level of production using less people with those high-tech machines.

Africa was supposed to be the next continent of (inaudible) after we reap all the benefit of low-cost workers in China. It is not going to happen because jobs are coming back here. And probably won't have any value added.

MR. DERVIS: Thank you. Interesting points, but we have to close. We really have to close.

Very quickly, Homi and Shanta and then we give the last word to Pravin.

MR. KHARAS: So, let me say one word on the BRICS bank and that is the following. 15 years ago, if you took the G-20 countries and you said: where is the savings? 80 percent of the savings would be in advanced countries and 20 percent in the developing country members of the BRICS. So, not surprisingly, all of the issues about how we're going to finance development was about, how do we take savings from advanced countries and transfer it to developing countries?

In 15 years from today, by 2030, 80 percent of the savings of the G-20 countries will be in the emerging market members, and 20 percent will be in the advanced country members. The questions about financing development will be about how do we get savings from developing what are now developing countries and spread them around the developing world for that kind of --- the investments that are going to be needed? So, the location of savings in the world is changing dramatically, and with that the nature of financial intermediation in the world also has to change.

MR. DERVIS: Thank you.

MR. KHARAS: I want one more point on measurement. Somebody said, look, a manager of a business wakes up in the morning and says, well, I should only care about the money that I make. That's based on an assumption. The assumption is that their shareholders only care about the money that the business makes. That's likely to be an erroneous assumption.

And what businesses are now being asked to do today is to just simply report on what they do in terms of their environmental impact and their social impact. Just report on it and leave it up to their governance structures, which is their shareholders, to decide whether they believe that that means that the business should focus on the making of money or whether the businesses should also focus on some of these other dimensions.

And my guess is that what you already see is that the most progressive businesses in the world --- some of the largest multinational corporations in the world --- have found that their shareholders actually care about a much broader range of things and it's good for their business bottom line. Not for their corporate social responsibility, it's good for their business bottom line to be thinking about these broader issues of sustainability and building it into their processes.

And I suspect that that's actually going to be a radical change in development in the next 20 years, moving forward.

MR. DERVIS: I think we will have another Faulk event just on this issue. (Laughter) Shanta, very quickly.

MR. DEVARAJAN: Yeah, very quickly. I think on the measurement issue, there are many things --- many problems with GDP, and I think the whole purpose of this discussion was to say, you know, there's the two worlds. There's the world where GDP is growing and then there's this world where poverty is not falling very fast. That's precisely why we measure things like consumption per capita, which is poverty.

We also measure --- I mean, the MDGs are measuring things like child mortality. I mean, that's a real thing when your child dies. That's a measure that you can't --- you don't put a monetary value on. It is a measure of welfare. So, I think there is something there.

But I do want to qualify a little bit the point that the difference between GDP and GNI, because I think there are some cases where there's a difference, and some of it has to do with the royalties accruing --- going outside the country.

But I actually would say that that's a second-order problem compared to the problem that I was mentioning earlier with a country like Gabon. Where even if the money stays in the country, it's not spent properly. I think we need to fix that before --- alongside the other problematic.

MR. DERVIS: Okay. Pravin, the last few words.

MR. GORDHAN: Hopefully we've established that, firstly, inequality doesn't leave you with sustainable societies or sustainable economies or a sustainable world. Secondly, that inclusivity is becoming an important imperative. And thirdly, inclusivity shouldn't just remain a concept. It's time to, as I said earlier on, link research and inquiry to active engagement in change processes, which teach us if you like a new generation of lessons about how to transform societies so that they are both economically efficient on the one hand but are socially just on the other hand.

Thank you.

MR. DERVIS: Thank you very much. (Applause)

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