Opinion&Analysis

Agang set for hard sell on state intervention in economy

BUSINESS WATCH

AGANG, which will be officially launched as a political party in Pretoria this weekend by former World Bank managing director Mamphela Ramphele, has provided little meat about its economic policies – but that may be a strategic decision.

However, Ramphele, who told the Cape Town Press Club yesterday that South Africa was at "a crossroads", was pressed on whether her economic policies would move in the opposite direction to those of the ANC.

Would Agang scale back government intervention in key sectors of the economy? Her response was: "If you want a government that cannot deliver textbooks, how can they run a mining company?"

She said the non-delivery of textbooks, in her home province of Limpopo, was not the only evidence that greater state involvement in the economy was counterproductive to economic and job growth.

"There is very little evidence of success by any government that gets involved in that level of detail (in the economy). Governments are supposed to regulate and create a climate for business, which knows best how to grow companies and generate wealth. Governments have a completely different function."

Structural bottlenecks in the economy needed to be sorted out. The problem with the mining sector was that it was based "on a 19th-century model".

Mining was taking place at tremendous depths. "Our mining is uncompetitive compared to other jurisdictions."

The question that had to be asked, she said, was why South Africa had been "the worst performer" during the commodity boom before the market tapered off during the recent recession.

Ramphele said the matter of mechanising the mines was of key importance.

One member of the audience suggested that would not go down well with unions.

Her answer was, a little extraordinarily, that the focus had to be on the future and this could only be achieved by tackling the tough issues.

One suspects that this is going to be the hard-sell approach for her new party.

Foreign outflows

Foreigners sold a net R3.8 billion worth of South African bonds last week, according to data from Citi.

> The question that had to be asked, Ramphele said, was why South Africa had been "the worst performer" during the last commodity boom period.

The purchase of a net R501 million of JSE-listed shares hardly dented the losses, with total portfolio outflows equal to a net R3.3bn.

The bond and equity tally for the month so far is a net outflow of R2.5bn.

The Treasury's weekly bond auction did not go well yesterday, according to Coronation Fund Managers' Mark le Roux. It did not go as badly as last week when the Treasury had to pay over the odds for its longest dated bond as the yield rose 18 basis points.

Le Roux said bond yields had increased about 10 basis points after yesterday's auction.

Emerging markets have not been doing well of late after several years in which they were the beneficiary of the carry trade – the practice of borrowing in low-interest currencies and investing in high yielding currencies like the rand.

The swing is mainly due to changed perceptions about the outlook for the US economy and a re-evaluation of the relative risks and rewards of investing in US bonds compared with those of emerging markets.

But some emerging markets have their own problems. In South Africa, industrial relations, particularly in mining, are striking the wrong note. Turkey has been coping with often violent protests and now Brazil is following suit.

The BBC reported yesterday that an estimated 200 000 people marched through the streets of Brasilia and Rio de Janeiro, protesting over rising public transport costs and the expense of staging the 2014 soccer World Cup.

Specific domestic factors will probably be overshadowed later today by the outcome of the meeting of the US Federal Open Market Committee.

If comments from US Federal Reserve chairman Ben Bernanke are correct, he will soon implement an exit strategy – that is, reduce the amount of liquidity the Fed has been pumping in to financial markets.

This means the rand will take another knock.

Edited by Banele Ginindza. With contributions by Donwald Pressly and Ethel Hazelhurst.

Power doesn't lie in gathering data but in analysing it

SECURITY ASSESSMENT

the Globalist

Amy Zalman

THE REVELATION that the US's National Security Agency (NSA) is gathering phone call metadata and online interactions such as e-mails and discussion forums has the world abuzz.

Legal issues aside, there is a broader debate to be had about Americans' belief that technology alone can solve the US's gravest problems.

Data mining technology is only as good as the inherently human effort to determine which data are relevant. This is art as much as science. Unless we begin to value this critical human effort, data mining will not yield results that make us safer.

Americans have always excelled at technological innovation and have admired the alluring rationality of science. The country grew rich on the readiness of Henry Ford and others to ask humans to imitate the regularity and efficiency of machines.

Today, defence establishment seeks to find ways to eliminate human error from the all-too-human practice of war. Thus, the development of "smart" weapons able to hit targets with superhuman precision.

The ability of a supercomputer to crunch incredibly large data sets has allowed some to argue that we can bypass human analysis altogether.

The underlying belief in the "power of big data" inverts reality. It isn't the data that are powerful. It's the people whose insightful grasp of the context of a particular phenomenon who are powerful. And it is their ability to build algorithms that capture expression of those contexts in massive data sets that we should be focusing on.

Right after the NSA issue broke, former CIA director Leon Panetta's chief of staff, Leon Bash, remarked: "If you're looking for a needle in the haystack, you need a haystack."

Not so. Actually, what you need is an accurate narrative, or theory, about the needle and how to characterise it.

Moreover, its characteristics must leave digital indicators, if you are planning to search in a digital haystack.

There must be enough examples of needles in the world for researchers to be certain that they can distinguish a needle from a stalk of dried grass. Without a precise sense of how to recognise a needle, all you will get are a lot of false positives.

Any process for selecting particular data from a larger set represents a story about the world outside the data.

It has been almost a quarter of a century since Princeton professor Orley Ashenfelter used statistics on rainfall and temperature to predict the quality of Bordeaux wines.

The reason that Ashenfelter could compute the value of a wine using statistics is that he had developed a strong theory about how rainfall and temperature combine to produce good wine. In other words, he imposed a pre-existing story onto data and correctly collected the particular data that served the story.

Imagine what would have happened if he had also collected statistics about the rise and fall of the population in France, the number of agricultural strikes per year and the number of cars travelling on national highways each month.

These are all eminently collectable data points, but he may not have had such success and may have simply drowned in an oversupply of information.

> Americans should recognise their technological bias and their tendency to tell themselves the story that technology has self-generating power.

In the past decade, the US has by all appearances put enormous energy and resources into developing the capability to collect and process digital and digitiseable data, and to make the data available to analysts in a format that makes intuitive sense. The technological challenges are not insignificant and advances that have been made are impressive.

But these technological challenges pale before the much more complex task of determining the factors and circumstances that lead people to political violence.

And they pose a mere fraction of the challenge analysts have in transcending their own and their institutions' biases and assumptions as they develop their theories about the meaning of the data.

These assumptions, as we know, are often unconscious. Some of them lie in the human predisposition to take mental shortcuts in order to make sense of the complexities around us. These include the tendency, described by Nate Silver in his recent book *The Signal and the Noise*, to elevate the importance of those data that are easy to access and dismiss data that are difficult to collect.

The content of online searches may not be the best data for analysing political violence. But it is easier to collect this than it is to develop an on-the-ground nuanced understanding of behind-the-scenes conspiracy building in, for example, Peshawar.

In other words, if you are looking for a needle, and collection technology makes it easy to build a haystack in which to look, it would be an entirely understandable human tendency to elevate the importance of the haystack.

The task facing those seeking to use data mining to support counterterrorism is not fundamentally different from the detective work that has always faced the investigator.

Intelligence is the job of selecting and putting together evidence into a feasible narrative. But it also requires having a nuanced sense of which evidence to look for to fill in the developing story. Poor stories will lead to poor data extraction. Collecting more data will not solve the problem.

We will not make the necessary advance with an imbalanced focus on the technological capability without an equally strong focus on our human capabilities.

We need critical thinking that helps us defend against our own biases, knowledge of societies and histories in which we are engaged, and imaginative and nuanced understanding of how statistical data do (and do not) express social patterns.

In order to understand problems that are fundamentally social and political, such as international terrorism, analysts need encouragement from their leadership to relentlessly interrogate their own narratives. Is the story we are imposing on the data the right one? Are we exploring the right data? Are we using the data because they are the right source for insight or simply because they are available?

This encouragement can be reflected in the allocation of resources to projects that develop the human side of cyber security.

And it needs to be reflected in the education and training of national security professionals, in the hiring process and via a culture of appreciation for the degree to which cyber is a human endeavour.

Above all, Americans should recognise their technological bias and their tendency to tell themselves the story that technology has self-generating power.

Perhaps that means developing a greater faith in their ability to stay critically engaged in a complex world using the power of knowledge and imagination. That would be an excellent starting point to learn the right lesson from the NSA story.

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Oldest man's death should prod Japan to act quickly

FLAWS IN ABENOMICS

William Pesek

IF EVER there were a wake-up call for Japan, the second-most indebted nation, the death of Jiroemon Kimura is it. On one level, Kimura is a good-news story. He was the last man born in the 1800s when he died on June 12 at the ripe, and some might say enviable, age of 116.

When he was born on April 19, 1897, Queen Victoria still reigned over the British Empire and childhood killers such as tuberculosis and pneumonia limited life expectancy in Japan to 44 years. Kimura is one of several Japanese who won the genetic version of the lottery.

That gets us to the bad-news part of this tale, one that heightens Prime Minister Shinzo Abe's challenge. As Japanese live longer and longer, they are altering a worrisome calculus.

The combination of the world's highest life expectancy, a public debt more than double the size of its $5.9 trillion (R59 trillion) economy and a below-replacement birth rate is the stuff that credit-rating downgrades are made of. Japan's unbalanced demographics are straining its pension liabilities by the day.

Japan has about 40 centenarians for every 100 000 people and has the world's highest proportion of elderly people.

Life expectancy is roughly 83, a figure that is expected to exceed 90 for women by 2050. The birth rate, meanwhile, is waning. That raises an indelicate question: who will pay a huge, and growing, national debt when there are fewer and fewer Japanese?

On any list of the challenges to Abe's revival plans, dubbed "Abenomics", Japan's demographic time bomb deserves a place near the top.

Abe, as have his many predecessors since the early 1990s, wants Japan to grow its way back to fiscal health.

His birth-rate policy amounts to wishful thinking: if we build a more vibrant economy, babies will come.

When he strong-armed the Bank of Japan to agree to double the monetary base, Abe's plan was for investors to buy domestic stocks as a means of boosting national confidence.

The latest lesson from the market suggests that Japan's debt load matters more than the architects of Abenomics realise. Markets want reassurances that Abe is at least considering ways to restore some balance between government liabilities and population trends.

Abe had an opportunity to do that last week when he pledged to flesh out the third element of Abenomics, the so-called third arrow.

The first two – massive central bank liquidity and fiscal pump priming – cheered investors.

But to make this grand scheme work, Abe must articulate how Japan will pay off more and more debt with fewer and fewer people.

Otherwise, the underlying tenets of Abenomics look more like a magic trick than a plausible growth strategy. It isn't clear that Japan's government will have the same luck as centenarians such as Kimura. – Bloomberg

William Pesek is a Bloomberg columnist. Follow him on Twitter.

■ DIARY

Ukrainian minister accused of boozing before budget

A PARLIAMENTARY hearing on Ukraine's budget was suspended yesterday when opposition deputies alleged that a deputy finance minister presenting the budget report was drunk.

Anatoly Myarkovsky, the first deputy finance minister, spoke for 10 minutes on the behaviour of government officials or deputies.

But when questions were invited, deputies from Ukraine's rowdy opposition called out: "He's drunk." One shouted: "Anyone within five meters can tell he reeks of someone who has been drinking vodka. Mr Speaker, go and sniff for yourself."

Speaker Volodymyr Rybak declined, saying it was not up to him to check on the behaviour of government officials or deputies. But he suspended the budget hearing until it had been clarified whether Myarkovsky had been under the influence or not.

Myarkovsky himself left the chamber as Rybak was speaking. There was no formal word from his office.

A deputy of the ruling Regions party, Volodymyr Makeyenko, sprang to Myarkovsky's defence.

"There wasn't any smell of alcohol coming from the deputy minister. I have known him for 20 years and he's a responsible person – these allegations are just an attempt by the opposition to undermine proceedings," he said.

Ukraine's parliament, where the Regions party holds a small majority, is often a theatre for physical tussles and fist fights among deputies. – Reuters