ADDRESS TO THE FEDUSA CONGRESS

Trevor Manuel, MP, Minister of Finance

21 May 2002

President and Officebearers of FEDUSA
Leaders of Affiliated Unions
Comrades and Friends

Thank you for the opportunity to address you here today. Together, we have a responsibility to act both to ensure the improved living and working conditions of South African workers, and to grow the number of workers by growing the economy. We, in government and you in the trade unions must retain a focus on both objectives. It is wrong to suggest that you either have decent working conditions or you have more people in employment – ours remains a struggle for the fulfilment of both.

It is in this regard that the issues of investment and savings in the economy are so important. We must start from the premise that we have too little of each of them and, that we must seek to enlarge the volumes and ensure their optimal management in the interests of the total economy.

We know that our democracy is hard-won. For this reason, we treasure the institutions created by democracy. But, we must continually remind ourselves that as political democracy works because its key institutions, the executive, the legislature and the judiciary are all independent and accountable; so, full democracy will work because all of its institutions are accountable. Too little is being done at present to hold all of our financial institutions accountable. We are all too aware that the only investment capital is our combined savings as a nation, to which we can add the flows of foreign investment which we can generate.

Our savings, be they pension funds, assurance policies, medical aid or money in the bank needs to be safely managed. We must have the guarantee that we will be able to call on our savings when we need them, and as the contracts stipulate.

But, safe management is insufficient, we must ensure that our savings will be used to build this economy, create the employment and generate new wealth. This remains the most basic logic of economics.

We have a few challenges which requires our best response. Firstly, South Africa has historically had too low a savings rate for a number of years – in 1980 we had a rate of 33.9%, by 1990 it had fallen to 19.1%. Faster growth , of the kind which will create sufficient new jobs, will require a savings rate of about 30% of GDP, presently we have around 15.1%.
We are therefore too dependent on attracting foreign investment in fixed assets to make up the rest. The gap between what we have available and what we need is the major reason for the structural employment which confronts South Africa.

Secondly, our low savings rate creates a scarcity value for capital. For this reason, our interest rates are so high. This obviously hinders investment decisions.

Prior to 1994, investment in South Africa was constrained by the fact that capital flows were negative due to adverse investor sentiment and huge debt repayments. Whilst we have reversed the trends since the arrival of democracy, the backlogs remain huge, and growing. South Africa last year attracted a miniscule R 10.9 Billion or about $ I Billion.

Thirdly, we have to campaign in an often hostile environment to attract foreign investment. The world we live in sees the bulk of investment flows between the developed economies. The USA is still the largest investment destination. Last year, the USA attracted $ 889 billion in private financial flows. Whilst the bulk of this has been attracted from Europe and Japan, on close examination you will find that some of your own savings has also contributed to their inflows.

The USA has been able to attract these significant inflows in part because it has enjoyed 10 years of high and unbroken growth. There was some reversal of the growth outcomes in the last quarter of 2001 and the first quarter of 2002, but the flows have not slowed down significantly. The other reason for the attractiveness of the USA for investments is that their institutions which hold financial markets accountable, like the Securities Exchange Commission (SEC) are strong, transparent, and rules bound. The work of the

SEC is not confined to capital inflows, their exemplary work is stronger in respect of the management of US savings.

Their rules for pension funds – where they can invest, how much they can invest in particular countries or instruments and the rules for the conduct of pension fund trustees are all extremely noteworthy.

In contrast, too high a proportion of our miniscule savings have gone offshore. Many South Africans funds have lost money on the actual investment abroad, and showed positive returns only because of the depreciation of the Rand. With the recent strengthening of the Rand, many of these funds stand to lose their shirts, and yours. A situation that we can ill afford.

We must change the relationships. Pension funds must hold their fund managers accountable. Pension fund trustees must be the active guardians of their members' interests.

The Pension Funds Act confers enormous powers on trustees. The act says:

?? The Board of Trustees either controls the fund's investment, or else, more usually, delegates investment to specialist investment managers under a mandate drafted by the Board of Trustees in consultation with their actuary.

?? The Board of Trustees remains responsible for the performance of the Fund even when the management of the funds has been assigned to an investment manager. Thus there is a duty on the board members to be specific with its instructions when assigning a mandate to its fund manager.

?? The Board of Trustees should also be responsible for monitoring the performance of the investment manager on at least a quarterly basis, as well as ensuring that the investment manager sticks to the specifications of the contract by which it is appointed.

?? The true power to extract performance from managers lies in a properly specified contract. Too often we see funds hiring and firing fund managers without considerations such as performance against benchmarks or the costs of their actions.

We hope to strengthen these powers further by the implementation of Regulation 28 of the Pensions Fund Act through which a documented investment strategy, appropriate to the fund will have to be complied with.

All of these measures are so important since many funds have migrated to what is called ‘defined contributions’, which means that the losses incurred are for the account of the individual beneficiaries, thereby rapidly eroding the retirement nest egg of working people.

To succeed at this, we must ask FEDUSA and each federation to embark on a huge education campaign of pension fund trustees. For too long, trade unions have tended to ignore their development responsibilities in the area of their members savings. We should all recognise that pension and provident funds are deferred earnings. There cannot be much merit in campaigning for higher wages when what has already been earned is not valued. I am not talking about the trade union investment companies – that is but a small part of an industry with total assets of about R 1 Trillion (if we add the Unit Trust industry, the total is R1.5 Trillion).

We do not need new legislation to effect changes. In terms of Section 7 (A) of the Pension Funds Act, members – that is current and former employees of a fund have the right to elect at least 50% of the trustees. This is truly an enormous power, which exists as a right in law. Even at representation of 50%, it is important to recognise that no decision can be taken without worker representatives. Obviously, there will be negotiations, but this is, after all, the lifeblood of the trade union movement.
The engagement off worker pension fund trustees must be smart and activist. The power of 50% representation is greater than in most other countries – and it was won in the pension and provident fund struggles of 1981.But, the opportunity must be used.

I have been the sole trustee of the Government Employees Pension Fund since 1996, despite the fact that the GEPF Law requires 50% worker representatives. During this period, the fund has grown from a funding level of 59% to over 96% - but this is not enough, the investment policy decisions must be taken together with worker representatives. So today, again I plead that your trustees be appointed.

During the period, some have argued that we should change to a pay-as-you-go system and use some of the accumulated funds for government spending. I have resisted this push. Government should spend what it raises in taxes and what it borrows to fund the deficit. The pension fund does not belong to government, it belongs to the beneficiaries. If worker representatives want the fund to be managed differently, it is their right. If they want to spend all of it, and my persuasion fails to convince them, I can only hope that they are properly mandated.

This is a fundamental belief because I remain of the view that all funds should be properly managed. But, the risks of taking investment policy decisions single-handedly are too great.

In the UK last year, the trustees of the Unilever Pension Fund sued their fund manager, Merrill Lynch for £300 million for negligence in the way it managed the pension funds – deviating from the agreed benchmarks. The case was settled out of court, with Merrill Lynch paying £75 million without admitting liability. This action was truly a watershed across the world in defining the accountability of pension fund managers. Please bear in mind that our Pension Funds Act is actually considerably stronger.

But, legislation alone cannot change investment behaviour. Trade Unions must become active players in the investment arena. The huge rush by fund managers to invest offshore has only happened because the trustees ignored their responsibilities. In the very recent past we've seen articles in the Sunday papers confirming that the grass at home is actually considerably greener. So, a significant portion of our investments will return home, if fund managers can face the embarrassment of returning with huge losses – or hold out for the depreciation of the rand again.

But, these are not issues that can be left to chance. We need an activist approach. We must act together to safeguard our limited investments. You must hold fund managers to account. You have a responsibility to ensure that funds are wisely invested – not only because this protects retirement benefits, but because it will protect the gains you secure in the bargaining chambers today.

With unemployment at present levels, all workers have their wages eroded – there is not a single worker who has a family member unemployed who has full benefit of his/her wage packet. Our culture is built on sharing.

So let's act together to consolidate your gains. Let us commit to developmental trade unionism. Let us commit to transformation. Let us commit to that extra effort to make a lasting change. Commit to win in the economy what we have secured in politics – full democracy.

Thank you.