MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA
Private Bag x115, Pretoria, 0001 • Tel: +27 12 323 8911• Fax: +27 12 323 3262
PO Box 29, Cape Town, 8000 • Tel: +27 21 464 6100 • Fax: +27 21 461 2934

NEWSMAKER OF THE YEAR
ACCEPTANCE SPEECH BY TREVOR A MANUEL, MP
MINISTER OF FINANCE
SANDTON, 06 SEPTEMBER 2006

Ladies and gentlemen,

Distinguished guests,

Members of the press,

As many of you know, we have recently had the privilege of discussing the development of the South African economy, and prospects for improving its growth performance, with an eminent group of international economists.

These discussions have been frank and wide-ranging – we have explored the numbers, and various possible interpretations of the numbers, and various explanations of the interpretations, and then possible alternatives to the numbers, because the explanations throw up some puzzles about the numbers which may turn out to be wrong or to be measuring the wrong things.

And so it is with some trepidation that I agreed to join you this evening, for it is not at all clear just what it is that we are celebrating this evening.

This confusing and incoherent clutter of numbers and trend-lines and interpretations and algebra and explanations and inter-connections that we call the economy, that once was more simply called Political Arithmetic, this babble of ideas and statistics and completing perspectives, turns out to be the Newsmaker of 2005.

It is not just that our international guests, with whom we have been in discussion on these things, have raised some anxieties in my mind about what we are measuring and where we are headed. It is not just that the Economy is a rather abstract category of news, or that it is a little hard to believe that the news-reading public, or even the newswriting public, really experienced the economy as the most startling event of last year. These are puzzles enough. But there is more. Our international guests have been frank, analytical, engaging, and sometimes a little rude. On the performance of the economy, for instance, they had the following to say:

> So your economic growth increased to 5 per cent last year. Very good. So the world economy is doing very nicely, so

the gold price is up and the platinum price is up, and you have a lot of capital inflows, and people are buying a lot of cars, but what have you done to make all this happen? So your economy is growing very well, but what makes you think you can take the credit? What have you done to make these things happen?

Which is a good point. If the economy was the newsmaker last year, that is not just about the role of fiscal or monetary policy, or the Budget, or even about domestic policy and economic management, as distinct from global developments and events that may be way beyond our control.

And it happens that last year's numbers contained several pleasant surprises, but of course economic news often isn't pleasant, and if I suggest this evening that the Ministry of Finance contributed to delivering last year's good news I might regret the implications when things move in the wrong direction next year or the year after.

So let me start off by saying Thank You, It is special and wonderful to be here, but this newsmaker thing: it wasn't me…

One year of good economic growth is all very well, but the news that really counts has to be measured over a longer time span. The numbers aren't in yet, and won't be for a long time to come. It is not one year's growth performance that counts, but sustained growth and development over a long time period, over several decades, that has the potential to make real and persistent differences to the quality of life of ordinary people, of ordinary South Africans, of the Southern African region, and of Africa more widely. So let me say a few things this evening, not about last year, or this year, but about the long run dynamics of social and economic development. I would like to explore with you just one simple idea, an organising principle of public policy if you like: that what we are able to enjoy today, what we see in the current statistics and trends, is a consequence of the choices we made a decade ago; and the things we do today, the things that really count, will make a difference to the lives of our children and our children's children.

And let me be bold enough to suggest that the reason we are here tonight, the real reason the performance of the economy last year won the jackpot in the newsmaker stakes, the reason the economy edged out Britney Spears and the Presidential Succession and Brett Kebble and National Despair over the Performance of the Football/Rugby/Cricket teams, is that we have only now, in the last year or so, realised as a nation, that we can overcome the terrible legacy of our history, that we can overcome that economic disability, that we can build an economy that works, a society that we can be proud of, that we can leave our children a legacy of rising prosperity, that if we make the right choices we can succeed in constructing a dynamic economy and leading the region and Africa more widely out of the morass of despair. Poverty is not yet history, but we can, and we will, progressively put deprivation behind us.

Not overnight, not in one year or in five, or even in a decade. But we can do what is necessary to set our trajectory unambiguously on an upward path.

Let me begin with the decade that is past.

We tabled a macroeconomic strategy in Parliament in June 1996. It was not a populist document: it set out some blunt messages. It said we would lower the budget deficit, and we did. It said we would liberalise exchange controls and reduce trade barriers, and we did. It said we would target monetary policy on reducing inflation, and we did. It said we would step up public infrastructure investment, and, well, that project is still under way. It said we would invest in training and skills development, and we did, although in truth the effectiveness of the new sector education and training authorities has yet to be proven. It said we would establish a structured flexibility in the labour market, which we did: with perhaps a little more emphasis on the structure than the flexibility.

GEAR was tabled under circumstances of stuttering economic confidence and real prospects of financial capital flight. Economic reconstruction and the achievement of more solid growth and employment were held back by the emerging market crisis of 1998 and 1999. This was a period of huge public policy transformation – education curriculum change, primary health care reprioritisation, land restitution, expansion of the housing subsidy programme, municipal infrastructure financing and free basic services, a new labour relations and dispute settlement environment, phasing out of the general export incentive scheme, restructuring of state assets. These specific policy reforms were more or less satisfactorily implemented, and in several areas the reform project is still incomplete, or there are important shifts of direction for the decade ahead. But the important point is that the economic and social policy shift was not just about macroeconomic management, it was also a comprehensive review and reorientation of microeconomic, sectoral and regulatory policies and practices.

So perhaps it is not a surprise that the economic projections of the GEAR framework were naive, and as things turned out the intended boost to growth and employment creation over the period 1996 to 2001 was compromised by global financial market turbulence in 1998 and the need to take corrective fiscal and monetary measures. But the real success of the 1996 strategy was the momentum given to growth and development in the post-2001 period. Stronger private sector investment and employment creation, the expansionary orientation of fiscal policy, broadening of the social security net, stabilisation of inflation within the 3 to 6 per cent target band, lower real interest rates and broad-based improvements in business and consumer confidence all have their roots in the macroeconomic and fiscal consolidation that was crystallised in the 1996 strategy document.

It is of course not possible to reconstruct what might have happened in the absence of the 1996 macroeconomic policy framework. Critics have contended that the moderation of public expenditure in the late 1990s held back social progress, and I think many of us who believe in social consensus as the basis for political action would have wanted to see greater commitment to the GEAR proposals around a social compact and collective engagement with the economic challenges of transformation.

But economic growth as a policy objective, and creating the conditions that make more rapid growth possible, were always going to be somewhat contested political terrain. This is as it should be, and the economic debate has been appropriately robust, even if not always quite as well-informed or articulate as we might have liked.

What was achieved during the GEAR reform period?

Conditions for trade and improved international financial mobility were addressed. South African companies understand the international environment in ways that they did not a decade ago, the pace of industrial reorganisation quickened, we are learning to take advantage of global market opportunities, and global companies have become more interested in South Africa as an investment destination and as a base for broader participation in Africa's economic revival. There are winners and losers in these engagements, and some of the exuberance of the last decade was accompanied by careless financial management. We now know that the microeconomic and regulatory aspects of industrial and sectoral development need more attention, but the South African corporate landscape is in general far healthier and better able to compete in the global environment than it was a decade ago.

The pace of investment has accelerated. This has taken some time – but both in the public and the private sectors, we are now seeing strong growth in infrastructure investment, acquisition and replenishment of machinery and equipment, and greater attention to industrial research and technology change.

In the fiscal environment, deficit reduction, improved revenue management, broadening of the tax base and a range of expenditure reforms have made it possible to move from reprioritisation within a broadly stable real spending envelope to steady expansion of key programmes and policy priorities. Public expenditure on services is now about 50 per cent higher in real terms than six years ago, but this is entirely financed by revenue growth and the declining relative burden of interest on state debt. And the revenue base-broadening measures have meant that rates of income tax for both individuals and companies have come down, together with removal or reduction of the burden on transfer duties, ad valorem duties and other transaction taxes. For those who are not fully familiar with our progress in improving the health of the public finances – let me simply recommend the treasury website, where the details are set out in a great deal of detail.

Economic growth and investment have brought faster creation of jobs in the last three years, and it is now clear that the rate of unemployment is falling and opportunities for young workseekers are improving. The gap between formal labour demand and supply is still much too large, and the quality and structure of skills development and further education leave much to be desired. But the key institutional reforms have been made, creating conditions for accelerated development in the decade ahead.

That is the essence of the long-run growth and development challenge. Greater prosperity, rapid poverty reduction – are not achieved in five-year or even ten-year bursts of enterprise. What happens in one decade, lays the foundation for what will be possible in decades to come. Sometimes these are very long trajectories – primary school education improvements make their way into improved economic performance not just in one generation but over several: the data show that educational attainment of mothers is one of the significant determinants of educational performance and labour market participation of their children.

The policy challenges of the decade ahead are in some respects a continuation of the reconstruction and development programme of the period since 1994, and the broad macroeconomic objectives of 1996 remain valid. But the specifics change, the global environment, with its risks and opportunities, has shifted, and the policy issues of today require new perspectives and fresh analytical tools.

Let me suggest a few concerns that will exercise us over the period ahead.

The trade data suggest that we are now running a balance of payment current account that is significantly different from zero, statistically speaking, and the number has a negative sign. This is not a bad thing in itself – we need to grow, and in order to grow we need to invest and modernise, and to some extent we can draw on international finance to bridge the gap between domestic savings and investment. But we live in a strange new world, in which rich countries do the borrowing and poor countries run surpluses, and nobody knows quite how the enormous build-up of global financial imbalances will work itself out over the years ahead. Because our foreign reserve position is considerably improved by comparison with a decade ago, we may be better able to manage global financial volatility now. But far more important is the strength and resilience of the investment outlook – reserves are no substitute for poor trading expectations.

So we have to focus clearly and consciously on real investment opportunities.

What does this mean in practice? Perhaps we should focus a bit less on policy and more on plans and projects. Certainly it means more engagement between government and the private sector on what might be holding back investment or development, or what might be done to remove barriers to trade, or what might assist in accelerating project implementation.

It means focusing on what is happening in individual sectors and sub-sectors, and what is happening in specific towns and cities, specific agro-processing areas and industrial zones.

This kind of “getting down to business”, at the level of individual projects and business plans, brings its own risks and difficulties. Consultations between businessmen and officials conducted behind closed doors can begin with the public interest and coordination problems, and end with decidedly private interests and unseemly transaction problems. Technical regulatory and planning issues seldom have neutral implications for the business environment, and cronyism is often built on the bureaucratic formalities that surround statutory approvals and processes.

This is partly why it is so important that sectoral charter consultations should be conducted openly and should be reinforced by serious, representative, oversight and monitoring arrangements. It is also why tougher ethical standards are so critical, backed by reporting, audit and compliance systems, both in government and in the business sector. As you know, we have put considerable work into this in the financial sector over the past few years, and I believe good progress has been made – in no small measure because of the persistence and attention to detail of many members of the press and the wider media community.

We have seen several legislative reforms since 1994: changes to the Pension Funds Act to ensure minimum benefits and the apportionment of pension surpluses; improved disclosure requirements, the creation of the FAIS Ombud through the Financial Advisory and Intermediary Services Act and the establishment of the Pension Fund Adjudicator (PFA).

Some issues still require further work, including the market conduct of banks (the subject of a process of policy review with the Competition Commission) and reforms in the contractual savings environment.

These reforms have highlighted the lack of transparency of retirement annuities, inadequate governance by retirement fund trustees, and widespread conflicts of interest (such as mis-selling by financial intermediaries and "bulking" and other undisclosed profits by pension fund administrators).

Perhaps we are dealing here with outdated business models – constructed in different times, under different conditions. We are focused on broader regulatory issues now – not solely issues of prudential oversight but also concerns about protection of customers' interests and ensuring that the financial sector meets the needs of the poor and of working people. The message is quite clear – no longer can financial sector companies hide costs; bombard clients with complexity; or expose themselves to conflicts of interest through rebates and kickbacks and expect to get away with it. Different and dynamic business models, improved disclosure, simpler and more suitable products, and better advice all have at their heart the equitable treatment of the financial services consumer.

So it is pleasing to record the progress of various Financial Sector Charter initiatives. I am advised that the latest total number of Mzansi accounts stands at 3,3 million. I remember addressing a breakfast gathering less than a year ago where I informed the audience that Mzansi account numbers stood at 1,75 million. We need to do more to understand the dynamics of this growth – who holds these accounts, what contribution does access to financial services make to household security, what are the next priorities for reform. But this does not diminish the sense that the initiative is and continues to be a remarkable success.

On financial literacy and consumer education, the Charter commits companies to dedicate 0.2% of post-tax profits to consumer education initiatives. Though seemingly a small percentage, the amounts over time run into millions of rands. Initiatives in this regard should be focussed on truly empowering consumers and potential consumers with knowledge, rather than bombarding them with marketing material.

Perhaps what is most important is that we all confirm the sense that economic change is a process that always spans a number of years, and that we do ourselves a disservice by being absorbed in short-termism. History has been kind to us, allowing this government a third term to deliver measurable change – and it is there! We must raise the bar for what we want to achieve, the commitments in constitution to recognising the injustices of the past, in order to reverse them, is an enormous responsibility of history. But we must be prepared to measure both the positive changes and the route we have yet to traverse to deliver a society that complies with our own measure, expressed in those 5 words, “A better life for all.”

We have a tendency to knock our own performance, to be captive to uninformed voices. A recent study, that compares fiscal performance in South Africa with those in Brazil and Venezuela is interesting – we spend more of our GDP on public services than either; we spend more than double of our budget on the poorest 40% than either; we spend a larger percentage of our budget on health and education than either; whilst Brazil’s “Zero Hunger” income support payments reaches 5% of the population (the spend is 1.3% of GDP) our social grants reach 24% of the population (we spend 3.4% of GDP); our collective bargaining system covers 45% of the workforce (as opposed to 10% in Venezuela and 15% in Brazil); yet we have, over the past five years run a lower fiscal deficit than either Brazil or Venezuela. Yet, they are the darlings of the local left, and we are knocked!

Well, pause and consider all of these mysteries of ‘political arithmetic’, then do your own. You will, undoubtedly, share our enthusiasm for what we have, together, as a young nation attained to give effect to our democracy.

Thank you.