



**MINISTRY: FINANCE**  
**REPUBLIC OF SOUTH AFRICA**

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**Speech to Directors' Dinner**

**Johannesburg**

**Minister of Finance**

**Trevor A. Manuel, MP**

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Let's start off by playing a little game. Whose favourite movie is 'So I married an axe murderer'? Any takers? Let me give you another clue. Whose nick name is Barney? Getting warmer? Okay here's a give away clue. Who made their debut as the Basil Kenyon Stadium against that great rugby power, Canada?

Hi John. How are you? Congratulations on beating England on Saturday.

There are two jobs in South Africa that every person in the country thinks that they should have. The one is the springbok rugby coach and the other is the Minister of Finance. I'm no exception. I'd love to be the

springbok rugby coach. So John, let me give you few tips on how to win a match. That rush defence thing, it's like raising interest rates too fast. It just doesn't work. When someone kicks an up and under, it will be great if the other guys give chase too, and don't just stand and watch the ball.

I could go on, but then John could probably give me a few tips on how to run the economy too.

A coach of a rugby team, well most coaches or managers find themselves muttering from time to time that "if you want to get the job done properly, you have to do it yourself." This is the problem of agency. One person cannot play prop, hooker, blind side flanker and when they get home, water the plants and work on global peace and prosperity all at once.

So for at least some of these projects, or part of each of them, we rely on other people.

But here is the problem. We rely on other people, but they are seldom perfectly or completely reliable. The great disillusioning with which we have to come to terms is that we can't do it all ourselves, and the power of delegation always carries the risk of disappointment. Just ask Jake.

The factors that influence the performance of the economy are immensely complex and often difficult to measure properly. At a macro level, we have a series of both global and domestic factors that affect our economy. However, at a micro level, the behaviour of individuals both as individuals but also as a team is what makes a difference. Not too different from a rugby team.

Let me give you two examples. South Africa's savings rate has been low both by international standards and relative to our own economic history. One of the reasons sighted for the low savings rate is the rising tax burden on the economy for the past twenty years. And so we decided to significantly reduce tax rates over the past decade. For individuals, disposable income has risen faster than earnings. We had hoped that this would have contributed, at least in part, to rising household savings. Individuals, each person acting on their own, have not only spent the tax cuts, but they've even spent the next tax cut too.

This reduction in savings comes at a time of accelerating investment in the economy. The net effect of the two is that we become reliant on foreign savings to fund our investments, increasing the risk for all in the economy.

Both John and Jake know all too well what happens when people don't stick to a game plan.

A second example of how individuals, each acting on their own, can have large consequences for society as a whole: many individuals feel that if they just dodge a little on the tax side, they'll be better off. Some tax payers, especially a few high income earners, look for every opportunity to skimp a little here, and a little there. They're probably thinking, 'Ah! Government has so much money, my little bit won't matter.' When this happens on a large scale, then the state cannot collect the resources to deliver proper services, provide sufficient vehicles for the police to patrol the streets, supply enough textbooks to schools and so

on. And so we complain about crime, which we are all legitimately entitled to do, but we continue to skimp just a little each year.

Individual actions, seemingly rational actions, can have hugely damaging consequences for a country.

Economic theory suggests that if individuals and firms act in their own self-interest, the welfare of society is advanced. There are certainly cases where this is true. But surely, it cannot be an absolute rule.

The behaviour of both firms and individuals often has negative consequences for other people. The economic term for this is 'externalities'.

The most obvious example of an externality is when someone pollutes the air through their driving. Their action causes harm to other people. The cost of driving, or the cost of the fuel, does not capture the full economic cost of the damage done to the environment.

Externalities can be positive too. If someone beautifies their garden, it provides an appealing environment for their neighbours too. Research and innovation often has a positive externality of society where the benefits are larger than can be captured by the individual who makes the invention. A large portion of public economics is dedicated to dealing with externalities. We tax or regulate actions that have a negative externality and we attempt to incentivise positive externalities through subsidies or tax breaks.

The economics of externalities and of individual action goes to the heart of the fact that we are not islands. The actions and behaviour of

individuals affect societies, how we develop and how our culture is shaped. You often don't hear finance ministers or economists using the term human solidarity, but much of economic management is about an understanding of human solidarity, an understanding or belief that we share a common planet, a country, and common destiny.

Good corporate governance seems a real pain, when you're sitting in a board meeting trying to make the books look good. However, countries or cultures where corporate governance is weak receive less investment, innovate less and grow at a slower pace. Individual action makes a huge difference to the prosperity of both their society and ultimately of themselves.

We have seen a number of cases in South Africa where board members have simply washed their hands of their fiduciary responsibility, and have sought short-term gain. I'm sure, in many cases, they did achieve some short term gain. But, we as a country pay the price.

The entire system of corporate governance is based on two assumptions: that by having external interested parties represented on boards, the rights of all shareholders can be protected. Second, that by aligning the interests of senior managers with those of shareholders, the interest of shareholders is advanced.

These assumptions don't always hold. Perhaps the temptation to make the books look good in the short term is just too strong. Perhaps we need a rethink on how we can realign the interests of managers, board members and shareholders. In South Africa, we have made progress in enhancing corporate governance through changes to company law, the

auditing industry, accounting standards and better financial sector regulation.

As members of boards, you don't only have a responsibility to shareholders today. You also have a responsibility to shareholders tomorrow. You also have a responsibility to ensure that the environment within which your business operates is conducive to growth. Only by taking a broader perspective of the term 'fiduciary responsibility' can society as a whole prosper.

There is increasing recognition that externalities don't only operate on a national level, but on an international level as well. The actions of countries often have negative consequences for the rest of the world. The fact that a single country, with 5 per cent of the world's population consumes 25 per cent of the world's natural resources has severe consequences for global peace and stability.

In South Africa, we are planning to build a dam on the Olifants River in the north east of the country. We need this dam to serve local communities who presently do not have access to clean water, to support mining in the area and to increase electricity generation. However, this river flows into another river that runs through Mozambique. Their needs must be considered too. What we do, how we behave has consequences for those around us.

In the past decade, we have seen the development of a literature around global public goods. Clean air, water, thriving oceans, pristine environments like the Antarctic are all assets that belong to us all, and to

future generations. If we plunder these resources today, then there will be nothing for our children tomorrow.

At a national level, societies thrive and prosper because individuals accept that they are part of a collective, they benefit from social institutions and they have a responsibility to contribute towards these institutions. Similarly, good corporate citizens are beneficiaries from open, growing markets.

At an international level too, we have rights and we have responsibilities. Progress, sustainable growth and development depend on how we act as global citizens.

Ladies and gentlemen, enjoy your dinner. In essence, I've been talking about team work, as appropriate to the rugby team as to managing the economy. A successful team requires individuals to act both in their own interests and in the interests of the team. Our team is our country and the world. After dinner, I look forward to getting a few tips from John on how to run the economy.

Thank you.