SHAPING PUBLIC OPINION: AN INVESTIGATION OF MEDIA FRAMING OF TREVOR MANUEL IN 1996 AND IN 2007, IN THE *FINANCIAL MAIL*

By

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DECLARATION

I, Lindani Mbunyuza, student no. 9604576, hereby declare that the treatise for MA Applied Media is my own work and that it has not previously been submitted for assessment to another University or for another qualification.

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Date_____

I wish to thank my parents for instilling in me the courage to go on despite the potholes on the way. My sincere thanks also go to my husband and two kids for their unending understanding of the pressures of conducting this research. Thanks are due to my colleagues at work for pretending not to see that I was studying and not working and to my boss for allowing me the space and time needed to complete this paper. Lastly, I owe my most and sincere gratitude to my supervisor Dr Wozniak for helping shape my thinking and this study.

ABSTRACT

The discussion that follows seeks to critically examine the manner in which a South African financial publication, the *Financial Mail* (*FM*) magazine, reported on the country's Finance Minister over two time periods. The specific time periods are April – June 1996, and February – April 2007. This will be done to assess whether the style of reporting changed over time. In order to accurately analyse the coverage, a content analysis of a number of articles published by the *FM* over two periods will be conducted.

The first period to be examined correlates with Manuel's first three months in office (April to June 1996) as finance minister, a role he took over after the resignation of then Finance Minister Chris Liebenberg, and the subsequent cabinet re-shuffle. This time period also coincides with the adoption of the internationally acclaimed South African constitution which pre-supposes, amongst others, freedom of the press. Manuel's first three months in office furthermore coincided with the African National Congress' (ANC) first period in government under the stewardship of President Nelson Mandela, having taken over power in 1994. The second time period selected is during Manuel's 11th year in office (February to April 2007). The second time period coincides with a different economic and social situation, with the country's economy having strengthened to the extent of recording a budget surplus. Relevant media theories and principles will be studied to evaluate which theories, if any, reflect the *Financial Mail's* style of writing, language use and choice of stories to cover regarding Minister Manuel.

An analysis of the first time period will include a look at the socio-economic conditions that prevailed at the respective times, against the background of the political situation during both periods. Dominant economic policies implemented and decisions taken during both periods relevant to the particular office Manuel held will be critically examined, since *FM* is a financial publication mostly covering financial and economic news.

Research conducted will be qualitative in nature, and include an in-depth content analysis of articles.

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INTRODUCTION

1.1 Aim and rationale

The study is a content analysis of articles published in a South African English-language financial magazine Financial Mail from 5 April 1996 to 28 June 1996, and 23 February 2007 to 13 April 2007. Different authors have differing views about this type of research. While content analysis has its limitations, it has been chosen for its relevance in this type of study. Krippendorff (2004:40) suggests that content analysis is an "unobtrusive technique. Babbie (1989:309) elaborates that the researcher "seldom has any effect on the subject, that is, the content being studied, because the method uses texts that are already made." This, according to Babbie, "reduces the researcher's own ideological position." Bryman (2001) agrees with Babbie and further observes that content analysis is nonreactive.

The study pays particular attention to articles that focused on the country's finance minister, Trevor Manuel, and articles specifically related to the performance of the economy, the depreciation of the currency and the economic framework (GEAR) introduced in 1996. The study will determine how Manuel, in his role as finance minister, was reflected in the *FM* reportage. The findings will be explored to identify whether there is any framing used by the *FM* in its reportage for positive effects that might have created a positive image for the African National Congress (ANC) as a party and as government; or whether Manuel was framed negatively by the magazine. The trends evident from this analysis will then be related to four theories of the media (democratic participant, libertarian, social responsibility and development media theories) to identify any particular trend in media functions used by the *FM* editors.

The time period of April – June 1996 relates to the Minister's appointment as the first black Finance Minister of South Africa, two years after the ANC had been voted into power in the country's first national democratic election in 1994. Manuel took office following the resignation of Chris Liebenberg, a professional banker who served as Finance Minister at the time, and following Mandela's first cabinet reshuffle, announced on 29 March 1996. The macro-economic policy of this South African government was launched in June 1996 and was called the Growth, Employment and Redistribution (GEAR) plan. Against this backdrop, Manuel's appointment faced a number of challenges and criticism.

The February to April 2007 time frame was chosen against the backdrop of an improved performance of the economy under Manuel's management. In the February 2007 budget, Manuel announced that the country's budget had "recorded a surplus of 0.6 percent" and also managed to "add R89.5 billion to departmental expenditure, and personal income tax relief for individuals amounting to R8.4 billion." (National Treasury 2007). All these were positive and suggested a different picture compared to the economy that government, and Manuel as Finance Minister, inherited in 1996.

The media reports also showed a different trend in 2007. Reporting about the excess R3 billion tax collected by South Africa, a representative story in IOL in 2007 noted that "Manuel was criticised early in his term for his conservative fiscal stance, which focused on paying off the country's debt, but in his budget in February he outlined South Africa's first budget surplus of about 0.3 percent of GDP in 2006/07." (No author: 2007).Furthermore, the Sunday Times in its supplement on 25 February noted that "there was more good news than bad in Manuel's budget. (Boyle 2007). While attempting to pre-empt the budget speech in the *FM*, Nazmeera Moola, head of macro strategy at an organisation called Macquarie and a regular columnist in the *FM*, asked, "so, what will Santa Trevor bring us this year…We've had a generous Santa recently." This suggests a positive and even grateful public approach toward the minister.

All articles were sourced in hard copy format from the *Financial Mail* archive Rosebank, Johannesburg.

1.2 Background to the South African political economy: 1996 and 2007

1.2.1 Overview of the situation in 1996

The year 1996 is one of the most important years in South African history, as the year when South Africa adopted its first constitution. The constitution – a cornerstone of legislation in the country was adopted on 8 May 1996 and later amended on 11 October 1996 by the Constitutional Assembly. It "lays the foundation 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," as stated in the preamble of the constitution. (The Constitution of the Republic of South Africa1996).

On the political level there were differences related to the government's economic framework within the ANC, Manuel's own political party, and among the ANC's alliance members, the South African Communist Party (SACP) and Congress of South African Trade Unions (COSATU). These related to Manuel as he was Finance Minister during the adoption of GEAR, which was adopted shortly after his appointment (June 1996). Speaking on the 75th anniversary of the founding of the SACP[1] on 26 July 1996, John Gomomo in the North West and Sam Mbhazima Shilowa, in the Western Cape both strongly criticised GEAR. Shilowa was the Secretary General of COSATU at the time and said, "When a macro-economic plan is placed on the table, with no prospect of negotiations while calling on our members to make certain commitments … We will be tacitly accepting a neo-liberal agenda. This we cannot do." (Shilowa 1996)

Manuel's appointment thus coincided with tumultuous internal ANC politics related to the country's economic trajectory. GEAR's 1996 implementation

[1] The South African Communist Party was founded in 1921. The SACP is a partner in the Tripartite Alliance consisting of the African National Congress and the Congress of South African Trade Union. The Youth Wing of the SACP is the Young Communist League.(SACP 2010)

sparked disagreement and accusations of non-consultation between the ANC and its allies in the tripartite alliance.

Manuel's first three months were also dominated by worried markets and the devaluation of the rand and relate to how he was negatively presented in the media. Predominantly, this was tied to comments Manuel made about financial markets, calling them an "amorphous entity".

The Banker in its 1 May 1996 edition under the headline "Radical roundabout - South Africa selects radical to be its new finance minister" noted, "Manuel as finance minister rattled the markets, which had not expected a former ANC activist, and a financial novice, to replace an established banker." (The Banker staff 1996). On 12 April 1996 the *FM* had asked "how much the rand will fall" and also noted that "Manuel is relatively unknown and has not been a model of consistency. (Gleason 1996). On the same day the publication carried a story under the rubric "The message from the markets: Why the rand is testing the confidence barrier" and wrote "... having a new Minister in the post is unsettling in a market that has become increasingly jittery." (Gleason 1996)

These assertions were contradicted by Somerville in his article of 1 May 1996 in *African Business* where he wrote: "The appointment of Mr Trevor Manuel to Minister of Finance reflects a growing confidence in the ANC Government's ability to handle the economy. Mr Manuel lacks the financial experience of his predecessors, Mr Chris Liebenberg and Mr Derek Keys ... his strengths as a political figure, who also commands respect within the financial community, should outweigh any weaknesses" (Somerville 1996)

Throughout the 1996 study period analysts and commentators expressed critical views about Manuel and his policy proposals. These are discussed in detail in chapter four of this study.

1.2.2 Overview of the situation in 2007

The year 2007 was marked by a number of critical conferences for the ANC and its alliance partners. The ANC's national general council, held in June to July, was closely followed by the SACP national congress in July and the

COSATU central committee gathering in September. All these culminated in the milestone ANC national conference where then-President Thabo Mbeki was ousted. This happened at the ANC's 52nd National Conference at the University of Limpopo in Polokwane on 16-20 December 2007. The National Conference, which is held every five years, is the highest decision-making body of the ANC. It decides the policies and programmes of the ANC, adopts constitutional amendments, and elects the National Executive Committee (NEC). (African National Congress 2007).

These conferences influenced the dialogue that dominated in 2007 about politics in the ruling party and in the alliance. As the ruling party, the ANC sets government policy which has to be followed by implementers of policy.

A strong critical presence during this period was evident in COSATU's secretary-general Zwelinzima Vavi, who had been a critic of Manuel since the adoption of GEAR. Vavi blamed Manuel, in his role as Finance Minister, for the high number of job losses and high rate of unemployment in the country. He asserted that government's macro-economic strategy (GEAR) was to blame for the ills in the economy. He also labelled Manuel as a friend of business and an enemy of the workers. According to Vavi, GEAR failed to address unemployment and was imposed on the country without consultation with the ANC's alliance partners. The debate about the fundamentals of GEAR as a government strategy became the centre of acrimony between Vavi and the two predominant individuals he blamed for failures brought about by the strategy: President Mbeki and Minister Manuel. (Terreblance 2006).

COSATU and its affiliates responded to Manuel's 2007 budget speech in an article on their website on 20 February 2007 titled "A missed opportunity": (Congress of South African Trade Unions 2007).

> ... there was nothing in his speech to make significant inroads into the appalling levels of unemployment, poverty and hunger, which still blight our country. The wealthy business community that benefited most from the first 12 years of democracy will still get richer while the poor will see no real or significant improvement in their lives.

> ...We are particularly angry that the Minister failed to even consider the Basic Income Grant to relieve the poverty of the many millions who do not qualify for the existing social grants.

This illustrated the dichotomy in the alliance, with the strong criticism of one of the ANC's mostly respected ministers. The disagreements dominated relations in the alliance, and 2007 was characterised by disagreements regarding Mbeki's leadership style, which was seen as an attempt to alienate COSATU. In an interview with the Mail and Guardian newspaper, Vavi said "COSATU strongly seeks to reclaim the ANC as the movement of working class that it is and should be." (Congress of South African Trade Unions 2007).

1.3 The South African media and regulatory aspects

Media freedom in South Africa is a right spelt out in the constitution of the country. Chapter of the constitution two states that everyone has the freedom of expression which includes freedom of the press. This allows the South African media the right to free news publication without fear of being censored, although there are on-going battles between the media, individuals (especially politicians) and government. It must also be noted that the media in South Africa is self-regulatory, with codes of practice that journalists are guided by – including the press code of conduct. The code of conduct also resonates with chapter two of the constitution, with the preamble to the code stating:

> "…the purpose of gathering and distributing news and opinion is to serve society by informing citizens and enabling them to make informed judgments… the freedom of the press…is freedom exercised on behalf of the public. (Wits Journalism Programme no date).

According to the code of conduct, the media aspires to values such as news being truthful, accurate, fair and balanced. (Wits Journalism Programme no date).

There are also a number of bodies and organisations in the country responsible for ensuring citizen access to the media and media responsibility to citizens. These include the Media Diversity Development Agency (MDD) set up to primarily encourage ownership and access to the media for those previously disadvantaged communities. (Media and Development Agency no date). The Broadcast Complaints Commission of South Africa adjudicates complaints from the public against the broadcasters who are members of the National Association of Broadcasters without fear or favour, which ensures that the broadcast media is not left to its own devices. (Broadcasting Complaints Commission of South Africa no date).

The Press Council of South Africa, the Press Ombudsman and the Press Appeals Panel is "a self-regulatory mechanism set up by the print media to provide impartial, expeditious and cost-effective adjudication to settle disputes between newspapers and magazines, on the one hand, and members of the public, on the other, over the editorial content of publications. The mechanism is based on two pillars: a commitment to freedom of expression, including freedom of the press, and to excellence in journalistic practice and ethics." The Council has adopted the South African Press Code to guide journalists in their daily practice of gathering and distributing news and opinion and to guide the Ombudsman and the Appeals Panel to reach decisions on complaints from the public. (Press Council of South Africa no date).

The Independent Communications Authority of South Africa (ICASA) is another body that regulates the South African communications, broadcasting and postal services sectors, monitors license compliance with license terms and conditions (set quotas for the total local content that broadcasters should adhere to), develops regulations for the three sectors, plans and manages the radio frequency spectrum, and protects consumers of these services and products. (Independent Communications Authority of South Africa no date). Other regulatory aspects include the Film and Publications Act which was amended in 2009 and primarily aims to regulate films and content that people, especially minors, are exposed to.

South African media organisations also understand the need to uphold high standards of professionalism and good media conduct. Newspaper houses such as those under the Avusa stable (e.g. *Sunday Times, The Times, Sowetan*) have their own accuracy checks. Kruger (2004: 269) and Retief (2002:245), for instance, describe a stage-by-stage accuracy check and adopted code of conduct at the Sunday Times which compels journalists to double-check that the information to be published is factually correct. The *FM* subscribes to the BDFM editorial code of conduct and ethics as found on (Wits Journalism Programme no date). This document is similar to the Press code of conduct found on the website of the Press Council.

All these bodies and measures exist to ensure that there is a considerable level of accountability to the public by the media, and to protect the public from unfair business practices and poor quality services.

1.4 The Financial Mail

The *Financial Mail* is a weekly South African financial magazine providing news and analysis. Its focus is on politics, business, investment and social trends. The magazine is privately owned and is run like any business that produces or sells a commodity with the aim of generating profits. Picard (2004:61) argues that because newspapers mainly carry commercialised, cost-effective content designed to appeal to the broadest audience and whose attention can be sold to advertisers, news judgement may be adversely affected. The same applies to most forms of media including the *FM.* If a story is not seen to be appealing by the editors, it may not be published because it may not have an audience. The magazine's circulation and readership figures stood at 29 745 and 215 000 respectively between July and September 2008. (Financial Mail no date).

Owned by Avusa[2] and partially owned by the BDFM[3], the *Financial Mail* is distributed in all provinces in South Africa. However, it is predominantly read

[2] Avusa Limited was officially founded on the 20th November 2007 as the new company for what had been Johnnic Communications Limited (Johncom). (Avusa no date). Avusa owns large-circulation newspapers such as *Sunday Times, Herald, Daily Dispatch* and also publishes nine weekly community-based newspaper titles including *East Cape Agri and Algoa Sun.* These publications serve

in Gauteng (101 000 readers, according to the South African Advertising Research Foundation: 2008). The publication is primarily aimed at "top earners who are educated and discerning readers and consumers in powerful positions and able to influence agendas and events." (Financial Mail 2010).

1.5 Background on Trevor Andrew Manuel as a Finance Minister

Trevor Manuel was appointed Finance Minister of South Africa by then President Nelson Mandela in 1996. His public service career began when he was elected to the National Executive Committee of the African National Congress and, in 1991, appointed head of the Department of Economic Planning, where he was responsible for the ANC's economic policy. Subsequently, he was elected to Parliament in South Africa's first democratic elections and then appointed Minister of Trade and Industry in 1994. Hirsch (2005:49) notes that Manuel was a "Sisulu lieutenant" and "had no background in economics." Given this, Callad (2006: 57) noted that the "market had reacted negatively to his appointment" and the rand appeared to be on a downward fall.

Aside from his service to South Africa, Manuel has also been a global player serving in a number of strategic positions such as being the Chairperson of the Development Committee of the International Monetary Fund, a member of the Commission on Growth and Development, a Commissioner on the Commission for Africa, and a Special UN Envoy appointed by UN Secretary General Ban Ki-Moon. He holds a number of awards for his roles both domestically and abroad. (Government Communication and Information System no date). He is credited as a major driving force behind the efficiency and success of the National Treasury, which in 2007 reported a budget surplus for the first time in the nation's history. (The Presidency no date).

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communities from Port St Johns to Jeffrey's Bay and have a weekly readership of nearly 700 000. (Avusa no date)

(Business Day Financial Mail owns the Financial *Mail, Business Day, Summit TV, Big News*, the *Home channel* –a home improvement channel (channel 182) on DSTV.(The home channel 2010) and *Ignition TV. Ignition TV* is a car magazine programme on DSTV channel 265) (Ignitiontv 2010).

Manuel's critics are not in short supply; topping the list is trade union COSATU[4]. Criticism heaped on Manuel appears to be mainly as a result of the economic policy which his party adopted soon after his appointment. The policy was known as the Growth, Employment and Redistribution (GEAR) and provided an economic policy framework for South Africa. In later years the strategy changed to the Accelerated and Shared Growth Initiative of South Africa (ASGISA) which built on the main fundamentals of GEAR, namely to quickly grow the economy so that it is able to create jobs, provide social services such as education and health and ensure a safer country.

Further, GEAR sought to achieve sustained growth on a higher plane, requiring transformation towards a competitive outward-oriented economy. The strategy also aimed to achieve a growth rate of 6 per cent per annum and job creation of 400 000 jobs per annum by the year 2000. (National Treasury no date).

Economic growth and job creation were the main footholds of the framework and according to the National Union of Metalworkers of South Africa (NUMSA), the policy failed as it benefited big business and not the poor. In November 2004, NUMSA wrote, "NUMSA continues to hold the view that GEAR, as a macro-economic policy, is incapable of maintaining a sustainable growth and developmental economy." The SACP agrees with this view and believe that Manuel is part of what is known as the 1996 "class project", the term used to describe former president Thabo Mbeki's supporters. SACP general secretary Blade Nzimande, writing on Umsebenzi online on 7 June 2006, said this about the class project: "This class project is a combination of certain objective processes of class formation in a democratic South Africa, and of deliberate policy choices followed by the government and capital, especially since the adoption of GEAR in 1996." (Nzimande 2006)

Manuel held the position of finance minister for 13 years, becoming one of the longest serving finance ministers in the world. He is currently minister in the

[4] Cosatu is a trade union federation launched in December 1985 and is part of the tri-partite Alliance with the African National Congress and the South African Communist Party (COSATU 2009).

Presidency responsible for the National Planning Commission. He is also a member of the National Executive Committee of the ANC.

1.6 Representation of politicians in the media

The section that follows focuses on the general representation of politicians in the media. Politicians have become major celebrities in the own right, with their faces as well known to the public as many of those in the entertainment industry. Stayner and Wring (2004:4) and Tresch (2009:67*)* write that "'mediatisation' of politics … is primarily communicated through the media, the question of who gets into the news and why that becomes of utmost importance", while Van Aelst, Maddens, Noppe and Fiers (2008:193) ask whether, "the media autonomously decide which candidate gets more attention than others."

Larson (2006:14) observes that "the politics of representation does not result from a conspiracy between producers/writers/politicians." In fact, Stayner and Wring (2004:1) note that "the media are an indispensable part of the political process … [they] enable politicians to address a mass audience." However, Larson (2006:195) adds that "politicians accuse the media of being biased … distort messages and hinder communication with people". On the other hand, continues Larson (2006:195) the media claims that "politicians manipulate and use" them to achieve their own objectives. To this, Nesbitt-Larking (2007:362) appends that importantly there should be a certain "level of trust between the politician and the media" but cautions that the two groups should not mistake this for a "friendship".

There seems to be agreement about what Stayner and Wring (2004:1) call "publicising the private" which inherently means the media publishing those facets of their lives that politicians would rather keep private. Nesbitt-Larking (2007:362) is more precise in offering politicians advice and states "politicians are in the public eye and should expect to be a subject of scrutiny." Retief (2002:156) and Kruger (2004:195) believe that if something happens in public, then it is not private, but what happens on private property is guarded by the privacy principle.

But how are politicians portrayed in the media? Rose (1994:122), in discussing the transition of American journalism, posits that what exists now is "junkyard dog journalism where the press attacks politicians in an unusually harsh and aggressive manner." This point resonates with Gunther and Mughan (2000: 252), suggesting that journalists routinely claim that politicians make promises they do not intend to keep or could not keep even if they tried." Actually, Gunther et al. (2000:252) believe that "if journalists were once lapdogs of politicians they are now attack dogs."

CHAPTER 2: THEORETICAL FRAMEWORK

South Africa is both a democratic and a developmental state which espouses the value and rights of media freedom. To a large extent, media in South Africa is self-regulatory. However, Fourie (2007:45) notes that South Africa did not always have a free press and that during the apartheid years a broad political classification of the South African press was evident, where newspapers were either pro-government or against government. The discussion that follows focuses on the theoretical foundations of the press. This will be used to evaluate whether it is evident in the coverage attributed to Manuel in the *FM.*

2.1 Theoretical foundations

The study will analyse the content of a selection of magazine articles in the *Financial Mail* relating to Trevor Manuel over two periods, using four media theories: the democratic-participant, libertarian, social responsibility and development media theories. Additionally, three other theories that are relevant to this study are framing and agenda-setting theory. These will form the theoretical backbone for the study.

The above theories were chosen for this analysis because they aptly describe various South African media functions in a variety of situations. While the media, according to the constitution, are meant to operate freely, there are indeed situations where, for instance, media representatives attempt to operate as watchdogs, whereas the government in a particular situation would prefer a developmental approach to a particular news item or situation to protect its plan of action or even its individual members from scrutiny.

In the exposure of corruption and poor accountability of public figures, the media operate according to libertarian principles while the affected individuals and, more often than not, their respective political bodies may deride media for exposing these individuals who allegedly represent party structures, and excuse them by calling upon, for instance, social responsibility towards the poor or a particular population group, or loyalty to a particular political programme.

The four media theories will therefore enable the researcher to assess the Financial Mail's probable intentions in the representation of Trevor Manuel as Finance Minister against the particular backgrounds of the two sample periods. It is hoped that any framing or agenda-setting will thereby become evident and that recurring themes in this representation will become clear.

Media theories

2.1.1(a) Democratic-participant theory

This theory argues that citizens and minority groups have rights of access to media. Aggarwal and Gupta (2001: 48) state that this theory relates to the needs, interests and aspirations of an active receiver in a political society. Further, McQuail (1983: 97) states that democratic-participant theory is ultimately "what is ideal for communities." MQuail's assertions are that the media content should be free from political or state control and that primarily, media should exist to serve its audience. Aggarwal and Gupta (2001: 48) believe that people have the right to relevant information, the right to answer back, and the right to use the means of communication in small scale settings of community, interest groups and sub-culture.

Fourie (2010:199) opines that this theory is a reaction against commercialisation and monopolies in privately controlled mass media, and against centralisation and bureaucratisation in public broadcasting. According to McQuail (1987, as quoted by Fourie 2010:200), the basic tenets of this theory are that individuals and minority groups should be able to enforce their right to have access to media and to be served by the media with content and information that is not influenced by politics. Baran and Davis (2009: 122) summarise this theory by stating that it advocates media support for cultural pluralism at a grassroots level and that media must thus be used for the purpose of stimulating and empowering pluralistic groups. Popular and grassroots participation for socio-economic

development is emphasised; but, more importantly, there is emphasis on freedom of political expression to stimulate constructive debate and to enable the media to act as a check and watch-dog on abuse of power and violation of human rights.

The democratic participant theory therefore subsumes the principles of participation for democratic society. In the analysis of the articles it will be shown how this becomes evident in the articles published about Manuel in the *Financial Mail*. This can be seen in words/phrases and suggestions used in the articles to refer to Manuel.

Oosthuizen (2002: 46-47) states that individuals must have access to the media and media content must be free from political control. Despite the broad move towards freedom of expression since 1994, in the South African context the media landscape continues to be dominated by only four media houses, namely, Avusa, Naspers, Kagiso and Primedia. (Kagiso Media no date). It is the researcher's view that, while the Constitution and professional bodies suggest that a social responsibility approach should guide media actions, the political economy and prevalent situation at the time dictate what becomes news. This indicates that at times this theory is more idealist than practical and not likely to be met by the media.

2.1.1(b) Libertarian theory

The main proponents of this theory are Siebert, Peterson and Schramm. The theory provides the anchorage for the social and political structure within which the media functions. (Siebert, Peterson and Schramm 1964:39). Authoritarian principles gave rise to the notion, as argued by John Milton in the *Areopagitica* in 1644, that there should be "an open market place for ideas and self-righting process: let all with something to say be free to express themselves." This advanced the belief that the true and sound will survive, the false and unsound will be vanquished. (Siebert et al. 1963:44-45). According to Oosthuizen (2002:40), the rise of democracy exists in countries where media is free from government interference.

Under the libertarian concept the media primarily fulfils two main functions – to entertain and to inform (Siebert et al. 1963:51). The state has no right to influence information published by the media. The theory, according to Siebert et al. (1963:51) and Biagi (2007:34), presupposes that the public could be trusted to digest and select information it deemed useful and discard that which it found to be less useful. A key weakness according to Biagi (2007:34) is the assumption that the media will not be influenced by other factors – that it will only report the truth at all times and that divergent views all have a space and can be heard. Fourie (2010:271) agrees and further states that the postulation this theory makes is that "people are rational beings capable of distinguishing between truth and falsehood and between good and evil."

This meant that different opinions could be voiced and the public had the ultimate responsibility of making decisions on its own. Siebert et al. (1963:52) argue that this was in complete contrast to the notion of monopolies by government, and as such anyone had the

unrestricted opportunity to own some form of communication channel. Critical to its characteristics are freedom and separation from government, which Fourie (2010:194) sees as important in that the people need to be informed about their government and its policies from a source other than government, thus enabling them to monitor government policies and formulate their own ideas. This is in agreement with Oosthuizen (2002:41) who argued that journalists are not forced to publish any material, especially related to government initiatives. In such a system, anyone with sufficient capital could start and own a communication organisation, subject to the rules of the market.

This theory suggests that both government and the population espouse 'freedom of the press' and minimum state intervention. Although the South African Constitution allows this approach to media, the reality is that forces of political economy, the power of existing media houses and the increasing tendency of the media to prioritise sensational, lifestyle or soft news ahead of investigative journalism have rendered the South African media potential prey to powerful lobby pressure and increasingly, political manipulation.

2.1.1(c) Social responsibility theory

Social responsibility theory attempts to balance out media aspirations with the rights of citizens. Oosthuizen (2002: 41) states that the theory was promulgated because of concerns that media may potentially abuse its freedom; it promotes the need by media to accept certain responsibilities towards the citizens (i.e. the audience). According to Biagi (2007:347), it arose out of the 1947 Hutchins Commission on Freedom of the Press which stated that the media should serve the public, and in order to do so, should remain free of government interference. Fourie (2010:194) agrees with Biagi (2007:347) in stating that the theory provided principles such as self-regulation, and reflecting diversity, accuracy, objectivity and professionalism in reporting, as guidelines that the media should

follow to fulfil its obligation of serving the public. Baran and Davis (2009: 115) agree with Biagi (2007:347) and further state that media has the responsibility to foster creative and innovative communities though providing cultural pluralism and thus becoming the voice of the people and not just elites.

Biagi (2007:347) concludes that this theory does not assume that media has all the answers to current public problems, and unlike the libertarian theory, the social responsibility theory advocates for government oversight in the interest of the public. Baran (2009:116) is of the view that more attention should be given to implementing this theory if it is to remain relevant in the newsroom, even as there is pressure to present hard news, environmental issues and sensational angles.

Oosthuizen (2002:42) clarifies that this theory promotes the code of conduct for journalists and media institutions and refers to professional standards such as accuracy, objectivity, self-regulation, not inciting violence and so on. The emphasis according to Oosthuizen (2002: 41) is on self-regulation or self-control, with a focus on media accountability to society.

In the South African context, the issue of reconciling freedom with the ideals of the social responsibility theory can, according to Fourie (2010:194), be seen in regulation especially by organisations such as ICASA, the Broadcasting Complaints Commission the Press Ombudsman, as well as South African National Editors' Forum[5], which offer a lifeline for those aggrieved by the media.

Social responsibility awareness is strongly emphasised in the South African context but may, in political contexts, fall prey to party-political interpretations and thus be diverted from its broad public base. Government guidance, in line with policies for social

[5] A body made up of editors that advances balanced and impartial reporting.

development, drives issues that relate to disempowered communities and thus social equilibrium.

Social responsibility suggests an act (be it by the media or government) that benefits the people. This can be government delivering on its social promises, for example, to build houses for the citizens. This does not distract the responsibility that citizens also have.

The developmental theory, discussed below, aspires to a partnership between government and the media, which is still facing considerable perception and practical challenges in South Africa.

2.1.1 (d) Developmental theory

South Africa, while a democratic state, is seeing increasing pressure from the government to determine what can be published. . The on-going debate, started in 2010, regarding the proposed Protection of Information Bill and Media Appeals Tribunal is an acute test of press freedom, but its hazard is played down by government spokespersons, even those as respected as vice-president Kgalema Motlanthe.

This theory, as explained by Baran and Davis (2009: 122) and Biagi (2007:340) calls for “government and the media to work together in partnership to ensure that the media assists in the planned development of the country.” Biagi (2007:340) further posits that the media becomes “an outlet for some types of government propaganda in the name of social and economic progress.” An example could be when government wants to promote safe sex for the youth and partners with the media by running campaigns that promote the message, in the form of billboards, advertisements on radio/television channels co-funded by government and a media organisation, and so on. An example of this is the Lovelife campaign that was targeted at the youth and focused on how HIV is

transmitted. It concentrated on spreading a message of caution to the youth and informed them how they could protect themselves from contracting the disease. The messages were designed to be catchy, funky and something the youth could relate to. On its website Lovelife[6] contends to be South Africa's largest national HIV prevention initiative for young people.

According to the website, the campaign is funded and is a joint initiative of leading South African non-government organisations and the South African government, in partnership with several private foundations and the private sector. This seems to be the trend, especially with health and socially inclined communication, because it would appear that big campaigns in these sectors are mostly conducted through some form of partnership. For instance, the '16 days of no violence against women and children' campaign is conducted in partnership between media houses, including the public broadcaster, and government. The campaign becomes effective primarily because of a community partnership approach. According to the Lovelife website there is a partnership with more than 200 community-based non-government organisations, 5 600 schools and 500 clinics across South Africa. (Lovelife no date)

Preston (1996:26) posits that development relates to the power of the political community to secure rational goals in respect of order and development. However, Pieterse (2010:1) argues that market forces are overtaking the role of the state. To this Pieterse (2010: 7-8) adds that the lineages of development are quite mixed and development takes different dimensions at any given time.

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[6] Lovelife is an organisation which works to educate people about the HIV/Aids epidemic, and the associated epidemics of teen pregnancy and sexually transmitted infections. The campaign combines a sustained high-powered campaign with nationwide community-level outreach and support programmes to promote healthy, HIV-free living among South African teens. (Lovelife no date)

According to this theory, the state has an overarching and positive developmental agenda for the country, but also holds the right to suppress news that may jeopardise that agenda. This type of control presumes that the government has noble goals – which ties in with the image of the ruling party as legitimate, goal-driven and having accountable representatives of the people.

It would seem that the theory is centred on government intervention in order to propel change. As has already been mentioned above, the state can do this by introducing a set of policy proposals aimed at changing the status quo. In the South African context, policy is usually debated and tested before it is introduced, so as to gauge whether amendments need to be made to the proposed implementation. The South African parliament also actively engages the public before passing laws. However, given the current ANC numerical dominance in government, laws or policies proposed by the ANC are usually implemented irrespective of opposition from the public and other political parties.

In the content analysis of the articles, the developmental theory of media will be used to evaluate potential bias in the articles published about Manuel in the *Financial Mail* and to suggest possible reasons for the representation of Manuel in a given way.

2.2 CRITICAL PRINCIPLES OF JOURNALISM RELEVANT FOR THIS STUDY

The following two principles that will be discussed are the cornerstone on which this study is premised. These are agenda setting and framing. The agenda setting principle will first be discussed in detail, followed by the framing theory, which extends the basic tenets of agenda setting. There are clear interconnections between these two theories and their implementation in journalism.

2.2.1 Framing and Agenda-setting theory

> *"News is a representation of the world mediated via the journalist" (Qing 2000:666)*

This section focuses on framing and will attempt to define the concept and explain its relevance to this study. This section is premised on the idea that "journalists hold up a mirror to society" (McQuail 2005:83). It is also linked to the above theory of agenda-setting as explored further in this section.

It is widely accepted that the media shapes public opinion. The framing theory builds on this and further illustrates that this happens through a process of framing. De Vreese (2005:51) notes that communication is a dynamic process that involves frame-building.

McQuail (1994:327) has observed that the media has a significant effect on its audiences, by constructing social reality. Gamson and Modigliani (1989:2) postulated that "the media discourse is part of the process by which journalists construct meaning and public opinion in public discourse by framing images of reality".

The framing theory was developed by Ervin Goffman "who based his ideas on notions derived from both 'symbolic interactionism and social constructinism'" (Baran et al. 2009:314). Baran et al. (2009: 322) posit that there is a "symbiotic relationship" between journalists who use frames. De Vreese (2005:51) suggests that "one influential way in which the media may shape public opinion is by framing events and issues in a particular way." This links to assertions by Fourie (2001:305) that "...journalists report on an issue and the contextualisation of news reports within a specific ideological framework." Through agenda setting and framing, media has the power to set the agenda for political discussion by focusing public attention on political figures, issues, and institutions. In addition, the media can frame political agendas by influencing public perception and interpretation (Ginsberg, Lowi & Weir, 1999). The principles of framing theory will be used to decipher some contexts of reporting about Manuel in the *Financial Mail*.

Gitlin (1980:7) explains that “frames …organise the world both for journalists who report it and … those who rely on those reports”. This means that when a journalist selects a topic that he or she is going to write about, he or she is inevitability drawing the audience’s attention to that particular topic; which is the original concept behind the agenda setting theory. Entman (1993:52) states that “to frame is to select some aspects of a perceived reality and make them more salient in a communicating test in such a way as to promote … a recommendation.” Tuchman (1978:192) writes that media reports “turn non-recognisable happenings ... into a discernible event.” Furthermore Tuchman (1978:193) explains that “an occurrence is transformed into an event and an event is transformed into a news story.” This implies that framing helps people understand events in the world. Gitlin (1980: 7) notes that frames are “persistent patterns of cognition, interpretation and presentation … by which discourse is organized.” This relates to how knowledge is formed and occurrences understood by the public.

Norris, Kern and Just (2003:11) state that “the essence of framing is selection to prioritise some facts, images, or developments over others thereby unconsciously promoting one particular interpretation of events.” This may be done consciously by a journalist or editor with the aim of giving one issue or event prominence. This means that framing is a means by which journalists ensure that events are converted into news. It is therefore noteworthy that Chyi & McCombs (2004) argue that “the importance and interpretation people attach to potential items on the public agenda are strongly influenced by how the media present news stories.”

Another definition is that “framing is a quality of communication that leads others to accept one meaning over another. It is a skill with profound effects on how organizational members understand and respond to the world in which they live. It is a skill that most successful leaders possess, yet one that is not often taught.” (University of Twente no date).

According to Entman (1993), frames “have several locations, including the communicator, the text, the receiver and the culture.” In respect of the communicator

Gamson and Modigliani (1989:2) note that it is the journalist who constructs meaning and passes it on to the public for meaning creation by individuals. Similarly, work by George Lakoff points to a number of segments including "a message, an audience, a messenger, a medium, images, a context, higher level moral and conceptual frames." He notes that this is a "communication frame" and that "frames form a system" (California State University no date).

Gamson and Modigliani (1987: 143) sum up a frame as "a central organizing idea or story line that provides meaning to an unfolding strip of events, weaving a connection among them". Gamson and Modigliani (1989:3) further added that "frames are interpretative packages what give meaning to an issue". To this Entman (2007:4) adds, framing "is a process of culling a few elements of perceived reality and assembling a narrative that highlights the connections among them to promote a particular interpretation". In his paper "Frame Analysis: Theoretical Preliminaries", König (2005) notes that "journalists select certain frames and transform them into airtight compartments." He adds that "frames are basic cognitive structures which guide the perception and representation of reality" – meaning frames "structure which parts of reality become noticed". Cappella and Jamieson (1997:40) note that "frames draw attention to certain features of an issue while minimising attention to others." This has connotations for the way a news story is perceived, judged, understood and interpreted.

According to McCombs (1997:3) framing is actually "second level agenda setting." In explaining this theory, McCombs offers that "as an extension of agenda setting, framing describes the impact of the salience of characteristics of media coverage on audiences." In his earlier work Goffman (1974) also noted that framing is a "central construct in agenda setting theory". Goffman defined frames as "cognitive structures which unconsciously lead the individual to what is to be noticed". Scheufele (1999:103) has a similar view and observes that "framing has been operationalised and primarily combined with agenda setting." Baran and Davis (2009:35) note that agenda setting establishes that there is an "important relationship between media reports and

people's ranking of issues". This ties in well with framing theory as people relate the importance of news by the media reports they consume.

Framing how an event is presented reflects the influences of mediated opinions, thus affecting the conclusions audiences draw and the individual choices that people will make. News organisations know this and use it to decide which story will be on the leader pages, or in the case of broadcasting, which story will be a headliner. Ultimately, all of this affects individual decisions. Such decisions may determine how they perceive a certain individual. Therefore, framing affects opinion making, by rendering some news more important than others.

As the discussion above has shown, there are very close links between the two theories indicate that framing indeed represents second level agenda setting. The framing theory refers to not only how the audience is influenced and interprets what is presented to them by the media, but also refers to the media's ability to persuade its audiences to accept one meaning of a concept over another.

CHAPTER 3: RESEARCH METHODOLOGY

The aim of the study is to evaluate the *Financial Mail*'s coverage and depiction of former Finance Minister Trevor Manuel over two defined time periods, in order to evaluate any differences in the coverage. An analysis of the news reports that happened soon after the appointment of Manuel as the country's first black Finance Minister will be juxtaposed against coverage in the same publication in 2007 when the South Africa economy recorded a surplus under Manuel's management.

The *Financial Mail* is a weekly financial publication in South Africa, and due to the nature of its focus, it closely follows the career of any South African Minister of Finance. However, in the case of Trevor Manuel, this coverage has not been uniform or consistent over the time period of his career. When he first took office in 1996, Manuel was criticised by the publication and this coincided with a new economic framework for the country. However, eleven years later, the same publication carried positive stories about him. This coincided with the year of electing a new president for the ANC (Manuel's political party), a budget surplus and more demands for social programmes brought about by perceived recession. The study will evaluate the coverage in the *Financial Mail* over a segment from each of these two periods (5 April 1996 to 28 June 1996 and 23 February 2007 to 13 April 2007) and evaluate the changes in the coverage.

3.1 Research approach

The research approach of this study is qualitative in nature. The study is a content analysis of articles published by the *Financial Mail* over the two study periods. Colorado State University defines content analysis as a "research tool used to determine the presence of certain words or concepts within texts or sets of texts. Researchers quantify and analyze the presence, meanings and relationships of such words and concepts, then make inferences about the messages within the texts." (Colorado State University no date). This means it can also be used as a technique for quantitative description evident in communication.

3.2 Method

Firstly, content analysis of a selection of articles was chosen as a suitable method to identify trends in the *Financial Mail*'s reporting about the Minister of Finance in these two periods. This method is applied qualitatively in this study; the leading topics of the respective articles and key words were gathered, so as to enable the researcher to identify trends in the reporting over the two periods.

Because content analysis is a method that aims to produce a "big picture" (delineating trends, patterns and absences over large aggregates of texts), it is well suited to dealing with the "massness" of mass media (Gerbner 1969), which, as Winston (1990) argues, can provide essential political insight. (quote and both sources cited from Deacon et al. 2007:119)

Since the person of the Minister of Finance, as a member of the government and of the ruling party, is viewed as intrinsically political in a society that is characterised by strong political affiliations, this method promises to highlight textual strategies intended to influence public opinion. In addition, South African mass media that are aimed primarily at intellectual audiences, such as the Financial Mail, may be perceived to have political agendas that may arise from the party affiliation or the financial status of the readers and/or the owners of the publication. The background to AVUSA, the owner company of the Financial Mail, has been explained in Chapter Two.

Although the proposed method for analysis of the texts appears suitable for this research project, Deacon et al. (2007) nonetheless warn that that the method of content analysis has certain shortcomings:

However, this big picture comes at a cost. By looking at aggregated meaning-making *across* texts, the method tends to skate over complex and varied processes of meaning-making *within* texts; the latent rather than manifest levels of meanings that are always evident (Graber 1989, cited in Deacon et al 2007:119). (Deacon et al. 2007:119)

For the purpose of this analysis, the internal structures of the sampled articles were not primarily taken into consideration. However, in the political analysis of the various statements made against the political background to the ANC and Trevor Manuel, negative allegations and positive descriptions are contextualised in the analysis in Chapter 4.

Secondly, the political context of the articles and the statements made therein, thus, is investigated and any framing or agenda-setting evident from the article is identified against the historical and political background outline in Chapter 2. This enables the researcher to suggest possible interpretations of media messages by the audience within the two South African politico-historical and economic contexts, and from these, to categorise the findings according to four models of media functions.

3.3 Sourcing the data for the sample

To collect data for this study, the Financial Mail electronic archive was used to locate the news articles. The archive contains what is published in the print version and is thus an accurate replica of what goes out to the public in magazine form. Articles chosen specifically cover news about Manuel, and the performance of the economy, the depreciation of the currency and the economic framework (GEAR) introduced in 1996. Articles were chosen according to their coverage of Trevor Manuel in relation to his official role as Finance Minister, and on economic frameworks within which South Africa operates.

Articles that were excluded from the sample would cover one related topics but without a strong focus on economic and political matters.

The criteria for selection of the sample articles were the following:

Firstly, the article must pertain to an action by Trevor Manuel which is of significance to the economic situation and status of the country. This excludes any other official actions that might have been commented on in his normal line of duty, as well as any reports about his private life.

Secondly, the article has to render a comprehensive overview on its topic; hence very short articles that merely report one or two facts were excluded.

Thirdly, the article must relate the action by Manuel to the economic situation of the country in relation to some other domestics or international factor in the situation of South Africa, as would be related to questions and interests of labour, industry, or the population.

By selecting articles according to these criteria, the researcher ensures that the representation of the Minister of Finance is contextualised within a broader socio-economic framework, and that the trends that will be identified do not arise from a particular publication's style that is used for sensational effect, but from a more rational description of a complex situation. This by no means implies that the reporting is at all times objective and neutral; on the contrary, it is through agenda-setting and framing that the intellectual media bring across a particular point of view.

The articles were used to identify and analyse evident trends in the coverage about Trevor Manuel in his professional role. Phrases, messages, metaphors and suggestions which the *FM* associated with Manuel (both positive and negative) form the basis of the analysis to identify any agenda setting and framing in the coverage. The study will therefore attempt to assess whether, and how, reporting on Trevor Manuel was framed in the political and socio-economic contexts of the respective historical periods.

The findings of the content analysis will, furthermore, be interpreted according the four models of media functioning so as to identify the various responses of the government, the ANC as Manuel's home party, and any other interest groups in the South African political environment to the particular actions of the Minister of Finance. This serves to highlight the diverse functions that the Financial Mail fulfils towards its readership and, by implication, to the broader South African public.

5 April 1996 – 28 June 1996 summary of articles

(See pages 66 to 123 of this document)

NO:	HEADLINE	SYNOPSIS	AUTHOR	DATE	PG
1.	Moment of truth for ANC's Trevor Manuel	SA has at last in Trevor Manuel a Finance Minister who speaks with the authority of the party.	No byline	5 April 1996	15
2.	Cabinet reshuffle: what it means for economic growth: time to move beyond transition. Have we been dealt a strong hand?	Ironically, the appointment to crucial posts of people who came to parliament on a populist ticket has been seen as positive by financial markets and the business community.	No byline	5 April 1996	16
3.	Cabinet reshuffle: Enigma of Jordan's axing	Why was Pallo Jordan axed when everyone can name other Ministers whose inexperience or ineptitude might seem to have made them more likely candidates?	No byline	5 April 1996	36
4.	The message from the markets: why the rand is testing the confidence barrier. How much farther can it fall?	The rand is a weak currency trading in an uncertain political and economic environment.	David Gleason	12 April 1996	18
5.	The rand: courage is needed	For the second time in two months, exchange control has become a major talking point; at the same time accompanied by yet another sustained attack on the currency, which has now depreciated by something around 12% in a comparatively short period.	David Gleason	12 April 1996	71
6.	The ANC, policy uncertainty and the financial markets. It's time to save the rand	A rand that loses value over an extended period erodes the wealth of the nation and undermines the foundations of the economy.	No byline	26 April 1996	31
7.	Collapsing rand. Market skepticism over economic welfarism	Over the past nine weeks, South Africans have lost nearly a quarter of their wealth as the rand has fallen to record lows against the US dollar.	No byline	3 May 1996	19
8.	Clutching at straws or a real turnaround?	Government and Manuel are seen not to be offering certainty to the markets	No byline	10 May 1996	21
9.	Who is really king of the castle?	After his savaging at the hands of the "amorphous" market, you would think Finance Minister Trevor Manuel would have the sense to be silent for a while.	David Gleason	10 May 1996	96
10.	De Klerk exodus from silken sinecures. Testing times ahead for NP	Voices within the NP caucus were being raised that the party was being too accommodating to the ANC -- against which it fought a brutal war for decades.	No byline		20
11.	Rising interest rates and scapegoats. Blame where it's due	The banks' decision to pre-empt a rise in Bank rate is not a ploy on their part to discomfit Cosatu or embarrass the Minister of Finance.	No byline	24 May 1996	39

NO:	HEADLINE	SYNOPSIS	AUTHOR	DATE	PG
12.	Rand reflects perceptions	Raising rates would punish SA consumers and do nothing for the rand… The consequences of the rand's collapse are clear enough: high real interest rates and no chance for fiscal policy over the next year.	Brian Kantor	24 May 1996	50
13.	Struggle for the ANC's ideological soul	Sam Shilowa's recent lashing out against big business in general and the idea of privatisation in particular obscures the real target and purpose of his attacks.	No byline	7 June 1996	22
14.	Manuel prescribes cautious Thatcherism. Time for bold decisions imminent	Government's new economic policy… is a necessary condition to attain the levels of growth and job creation needed by the turn of the century.	No byline	21 June 1996	20
15.	Labour market reform. Flexibility the watchword	Minimum wages were uppermost in the minds of labour, business and prospective overseas investors awaiting Labour Minister Tito Mboweni's crucial labour policy reform proposals this week.	No byline	21 June 1996	45
16.	Privatisation: Choosing the banker	Government's privatisation plans are back on track after labour jettisoned the process six months ago.	No byine	28 June 1996	47
17.	Manuel's macro-economic framework. A goal not a forecast	Scenario projections are not a hard forecast. GDP growth of 6,1% in the year 2000 is a goal -- not a prediction.	No byline	28 June 1996	36

16 FEBRUARY 2007 – 13 APRIL 2007 summary of articles

(See pages 125 to 178 of this document)

NO:	HEADLINE	SYNOPSIS	AUTHOR	DATE	PG
1	"A necessary surplus"	Manuel is referred to as Santa Trevor and questions about what surprises there are in his budget "gift bag" " We've had a generous Santa recently."	Nazmeera Moola	16 Feb 2007	34
2	No U-turn	What will happen to SA's economic management when Mbeki and Manuel go?	Carol Paton	23 Feb 2007	Cover story
3	"Mbeki's economic legacy: An eye for a winning team"		Mariam Isa	23 Feb 2007	Cover story
4	"The risks of a shift to state welfarism"	The 2007 budget will be remembered for one reason: it has marked the point at which SA irrevocably committed itself to becoming a welfare state.	Editorial	23 Feb 2007	16
5	Big picture missing	The surplus signals a change in government's macroeconomic management plan.	Réjane Woodroffe	23 Feb 2007	18
6	Do we have enough say	The MTBPS provides information on budget allocations and priorities over the same period, and indicates how the intended expenditure will be financed.	Prakash Naidoo	23 Feb 2007	38
7	Long road ahead	As usual, it looks like politics will make things difficult for policy-makers.	Carol Paton	23 Feb 2007	42
8	Manuel rolls in it	Manuel exploits record economic position to deliver for the poor.	Mariam Isa	23 Feb 2007	
9	Treasury's A team	The release...of the second discussion paper on "Social security and retirement reform" is the culmination of almost three years' work by a high-powered team from national treasury.	Sven Lünsche	2 March 2007	Cover story
10	A soft landing at 5% is good news	The economy grew by 5% and that is called the story calls that " welcome news.	Editorial	2 March 2007	46
11	Economic Impact: Enforcing our social duty	A national compulsory savings scheme will probably be good for the economy.	Mariam Isa	2 March 2007	47
12	Fast forward	Activity in the three biggest sectors of the economy - finance, manufacturing and retail trade - drove growth in the fourth quarter to 5,6% from 4,5% in the third quarter, according to figures released by Stats SA.	Mariam Isa	2 March 2007	48

NO:	HEADLINE	SYNOPSIS	AUTHOR	DATE	PG
13	Talk on a hot topic		Justice Malala	9 April 2007	91
14	Many bets steady the boat	Plans to allow South Africans to trade futures in the rand on the JSE are a welcomed move.	Mariam Isa	9 April 2007	42
15	"Development funding: Aid in the balance"	In February finance minister Manuel budgeted for an R11bn surplus for the current fiscal year after he had brought down the deficit consistently in previous years.	Thandeka Gqubule	13 April 2007	32

CHAPTER 4: RESEARCH ANALYSIS AND FINDINGS

This chapter provides an analysis of the articles and then triangulates the content with the identified media theories. The articles that have been selected for this study will be referred to by article number. The articles appear at the end of this study in an appendix. The discussion will be structured according to the following headings: positive framing, negative framing, adjectives used, oppositional voice, economic specialist voice, ANC voice and international voice. This will be done for each study period, in order to show that there is a relationship that exists between framing and shaping public opinion.

4.1 Analysis of the 1996 coverage

4.1.1 Positive framing

Johnson-Cartee (2005: 200) notes that "news promoters will frame attributes associated with the people…in negative or positive terms." It is these attributes (whether positive or negative) that shape public opinion. Johnson-Cartee (2005: 200) adds that "positive framing of attributes consistently leads to more favourable evaluations of objects."

There are five articles in the context of this study that follow the pattern of positive framing. These are article one, two, three, fifteen and seventeen. Article one for instance notes that Manuel as an individual "speaks with authority" and has the backing of the ANC. In the article Manuel is framed positively and the *FM* selected positive attributes to highlight about him. For instance, the same article notes "from his conduct a more rational assessment of the intellectual integrity of its policies may be possible." This means that the *FM* is hopeful that Manuel will introduce credible policies that benefit the country. This is the issue the *FM* chooses as a salient point to put on the public agenda. What is noteworthy is that the article actually opens with this positive framing of Manuel in its first paragraph. The same article further states that "he will be in a position to stop leakages, thus locating Manuel as an individual who is responsible and is concerned about wastage. Manuel is therefore portrayed as a person who can effectively control state finances. There are four more articles that support this positive framing observation.

In article two, for example, the *FM* seems to show confidence in Manuel and even highlights that “business is optimistic.” Further, the same article states that Manuel is even considered to be "pro market," meaning that he is not unfriendly to business. The issue of confidence is taken further in article three which states “the appointment of Trevor Manuel as Minister of Finance was the first time Mandela has chosen a leading ANC figure for this key post.” This is again echoed in articles fifteen and seventeen which note the confidence the business sector and economists seem to have in Manuel. Article fifteen suggests that Manuel’s policy proposals will benefit the country positively. Manuel, it is further believed, can prudently manage the budget of the country. Article seventeen concludes by quoting Azar Jammine, an economist, who observes that the financial sector has confidence in Manuel.

The above five articles are the only articles in the selected 1996 articles that appear to portray Manuel positively. Manuel’s positive portrayal is closely aligned with articles associated with optimism by the business sector and the *FM* in his ability to manage the economy.

4.1.2 Negative framing

In the preceding section it was pointed out that only five articles portrayed Manuel positively. This implies that the rest of the articles (twelve out of seventeen) framed Manuel negatively. These are articles four, five, six, seven, eight, nine, ten, eleven, twelve, thirteen, fourteen and sixteen. Johnson-Cartee (2005:292) states that “negative information is weighted more heavily than positive information, is more persuasive and is easier to remember.” The article by article analysis that follows will show how the negative news may have contributed to shaping public opinion about Manuel.

The negative information published by the *FM* about Manuel began in the week following his appointment. In the context of this study, the first of those negative articles is article four. The article focuses on the depreciation of the rand and questions Manuel’s knowledge about his work. The article points out that he is “unknown and has not been a model of consistency.” This shows that the positivity apparent in the previous week’s edition had already started

to disappear. This is precipitated by what the *FM* calls “instability by government's reluctance to remove exchange controls.” In addition, the same article (article four) states that because he is new and unknown that is “unsettling to the markets.”

Article five focuses on the depreciation of the rand. The article notes that the currency “slid to R4.11 against the dollar” an occurrence Manuel blamed on currency speculators. The article points to a lack of proper management of the economy and the currency. The depreciation of the rand became one of the issues the *FM* repeated each time a story was published about Manuel. The currency reporting continues on article six. The *FM* seems to be concerned about the economic direction the country is headed, given the currency losing value and Manuel’s indecision about key economic policies such as the removal of exchange controls. As the rand continues to depreciate, negative information was also being placed in the public sphere about Manuel.

Article seven challenges the policy choices made by government, especially what is perceived as a move towards welfarism and asks, whether these will “uplift the poor” and whether the policies can sustain economic growth. In fact, the concluding paragraph notes that “there is profound scepticism that unsustainable political objective is being allowed to obscure economic reality.” Article eight is further damaging for Manuel and his political party because it suggests that readers should perhaps never have voted them in power. It states, “There was never any great reason for confidence in the ANC's commitment to reform.” The article almost forces the readers to doubt their decision to vote for the ANC.

Article nine carries an allegation by the *FM* that Manuel is not diplomatic in dealing with the market. This follows comments Manuel made about the market, to which the market reacted negatively. Manuel, as already mentioned in chapter one called the markets an amorphous entity. The article notes that if the rand were to recover Manuel needed to indicate that he “takes the market seriously.” The *FM* points out that taking the market seriously will “sustain the currency's recovery”.

Articles eleven and twelve pick up on the 'amorphous' issue and the depreciation of the currency and criticise Manuel for continuing to believe that the depreciation is due to actions of currency spectators. Article eleven notes that his statement about the market caused the country to lose money and resulted in some investors taking their money out of South Africa. The article suggests that government has no consideration for foreign investors who require certainty in order to invest. In article twelve readers are told that, because of Manuel's careless behaviour and lack of action in stabilising the currency, they will "consume much less than they would have". The *FM* criticises Manuel and notes that "Manuel sent signals which the market read as weakness." To back up the idea that Manuel may neither understand his work nor know how to deal with the market, article twelve explains that South Africans will continue to suffer "until he understands the markets relied on by ordinary South Africans." These articles thus frame Manuel as indecisive and uncaring.

In article fourteen Manuel is portrayed as arrogant. In fact, the article states "Manuel emphasises that the parameters of his plan were not up for negotiation". In a democracy, government leaders have to condone debate about policies. Manuel is reported to act in contradiction to these values, in refusing to negotiate.

It has thus been observed that during the 1996 study period, the dominant framing that occurred was negative. It is mainly negative information that was put on the public agenda and shaped public opinion. The negative presentation of Manuel's actions in these articles may have influenced readers to draw adverse conclusions about Manuel. If a frame as Gamson et al. (1987: 143) suggests is "a central organising idea or story line that provides meaning to an unfolding strip of events, weaving a connection among them", then it would appear that the *FM* chose to highlight a negative "organising story line" in its depiction of Manuel in 1996.

4.1.3 Recurring descriptive words and phrases used in articles

This section deals with the words and or phrases as well as the adjectives used to describe Manuel in the articles. This section is not structured by article but lists positive and negative adjectives and terms in the discussion of Manuel's actions. Positive words and phrases used in the articles include intellectual, integrity, sensitivity, sincerity, political integrity, stabilise, leading ANC figure and impressed.

These positive attributes aided in describing Manuel as a respectable, able and competent minister of finance, thereby creating a positive reception for this official.

The text on negative framing on page 35 already accedes that there was more negative written about Manuel than positive. The negative terms found in the various articles include "hostility, malice, knobble, ineffectual, dogged, greater obstacles, populist, shuffled his feet, government's failure, procrastinate, reluctance, uncertainty, tumbling currency, plunge, savaging, conveniently forget, rand's collapse, damaging, glaring deficiency" and "disappointment".

The use of these may have added to an existing negative public opinion about Manuel, further entrenched by the poor performance of the economy at the time especially related to the depreciation of the currency.

4.1.4 Oppositional voices

It has been observed that the dominant oppositional voice in the articles during the 1996 study period was COSATU. COSATU's voice comes through in the person of Shilowa and Vavi (general secretary and assistant general secretary respectively) especially related to the organisation's concerns about ANC policies for example, GEAR. COSATU's opinion was that Manuel was more sympathetic to the business sector than to workers. For example, Vavi is quoted as saying "And numbers aside, will we see the wage flexibility that actually results in the lower wage increases?" Vavi is also quoted to have added that COSATU will not negotiate if the starting point is wage moderation. Shilowa rejected a call by Mandela for privatisation and clarified that

“COSATU is not naive to the fact that the call for privatisation forms part of an international trend to reduce the role of governments in their economies.”

This followed pronouncements by Mandela that "privatisation is the fundamental policy of the ANC and it will be implemented." Throughout the 1996 period there were policy disagreements between COSATU and the ANC (including Manuel since most related to economic principles) even as these two organisations were in an alliance.

COSATU, as a trade union federation that primarily looks after the interests of workers, continued to criticise ANC policies. Some of the policies COSATU criticised as discussed above in section 4.1.4[page 35] shows were economic policies which Manuel presided over. This situated Manuel as not being concerned about the challenges facing workers, and alleged that he was instead sympathetic to the business sector.

4.1.5 Academic/ Economic voices

The articles quote academics like Brian Kantor, professor of economics from the University of Cape Town, and University of Witwatersrand visiting professor of business economics Ronnie Bethlehem, who offer educated perspectives on the actions of Manuel. These perspectives are used by the media to strengthen assertions the *FM* has about Manuel. Bethlehem for instance, commented on how realistic the GEAR framework, was and how achievable the targets government set would be. He is quoted as having said, "Whether these targets are realised will depend not just on domestic policy formulation, but on exogenous circumstances and what's happening to the world business cycle.” Kantor, on the other hand, wrote a column (article twelve) suggesting that Manuel needed to understand how the markets work in order that he can make informed decisions in dealing with them. This framed Manuel negatively as educated personalities appeared to find gaps in his proposed policies with some academics even suggesting that Manuel perhaps did not understand what needed to be done to better manage the economy. This demonstrated there is a chance the policies were not well thought through.

The *FM* also relied on economists for their (economists) views on the different economic pronouncements on government spending, exchange controls and the currency. Econometrix chief economist Azar Jammine's voice is used in the debate about the credibility of the GEAR strategy and what government would have to do for the strategy to succeed. Jammine is quoted in article seventeen as saying, "This presupposes a sharp cut in government spending and/or extensive privatisation. It's open to debate whether either will be realised." The next three economists commented on article four on the issue of currency volatility. Graham Boyd of Simpson McKie James Capel's strategy department suggested that "the market has been trying to find a level for the rand which would be appropriate when exchange controls end." If the Cabinet failed to make this crucial decision, the rand would be vulnerable to another major speculative attack, says Carmen Maynard of Fleming Martin. Maynard was also commenting about currency volatility. Smith Borkum Hare economist Jos Gerson says even a slight reduction in the rate at which demand for goods and services is growing causes a substantial reduction in earnings per share. Pitting Manuel against economists with all the economists differing with Manuel about the effect of currency volatility framed Manuel negatively especially because the currency depreciation had negative effects which article nine says left many "immeasurably poorer."

Johnson-Cartee (2005:220) calls the above individuals who provide analysis or comment, news shapers in that "they provide background and analysis… but are not the focus of the news." The *FM* uses these news shapers to legitimatise stories. Johnson-Cartee (2005:220) adds that sources are selected for among other things their "authoritativeness and articulateness." It can be noted in the context of this study that the economists and academics are not only news shapers but contribute to how the public views the person they may be commenting about. This is because of their authoritativeness.

4.1.6 The ANC voice

While the ANC is mentioned in most of the articles studied, there is limited use of direct quotes of ANC officials. The party is mostly referred to when there are policy disagreements with COSATU or the media.

In the news political party voices are usually received through comments by the party's official spokesperson, the president, the secretary general or a senior member of the party. There is no evidence of that trend in the articles published during the study period. There is for example, in article thirteen where an ANC official is quoted but there is no name mentioned (possibly for confidentiality and protecting the source) and the quote is not in quotation marks. The article states, "With the Constitution basically out of the way, explains an ANC MP, the next big question centres on the economy."

Only article ten and thirteen use quotation marks for an ANC speaker, when Mandela commented about the collapse of the government of nation unity and the issue of privatisation. He is quoted as saying, "The policies that the GNU has been executing are premised on the needs and aspirations of all the country's peoples. This applies to all areas of endeavour . . . to improve the quality of life of the people through sound economic policies of fiscal discipline and other measures to promote growth and development." About privatisation he is quoted as saying privatisation is the "fundamental policy of the ANC." In other articles for example, article six and seventeen, the *FM* makes reference to statements he (Mandela) had made but does not quote him directly. Article two quotes the ANC, though not in direct quotes. The article states "The ANC has stressed the closure of the RDP office is not an end to ANC efforts to tackle poverty. It could be argued, indeed, that it is the beginning of government's efforts in this direction."

The use of direct quotes in news stories is important. Fox (2001:63) attests to this and states the following about using direct quotes "offer readers maximum degree of personal contact with news makers obtainable in print." By using direct quotes, Fox (2001:63) continues, "a journalist can step aside for a moment and let their subjects speak for themselves." Direct quotes, Fox (2001:63) adds, "are especially important in stories that hinge on controversial or inflammatory statements."

It may happen that the ANC opinion was intentionally not sought or used and that could explain why there is such lack of ANC direct quotes even as the focus is on an ANC minister and the ANC government.

Manuel was framed negatively the same way the ANC was. He was not seen to be able to understand his work. This may have resulted in less confident by the public in him and his policy proposals. Article eight in noting that Manuel should relax exchange control adds that Manuel and his party the ANC are not committed to reform.

4.1.7 International voices

The articles refer to perceptions of international investors about Manuel and his position and statements about the market which negatively affected the value of the rand. However, none of the articles mention anyone from the international investor community commenting. The articles therefore speculate that the investors may be worried about Manuel's economic policies, his indecision and reluctance in providing certainty. The articles compare the apartheid and the democratic regime and states that, "With Ministers from the ancient regime presiding over the Treasury, foreign investors derived some comfort from a belief that welfarism would be held in balance …without that comfort, foreign investors are unlikely to be enthusiastic about supplying Manuel…".

About the indecision, article nine states "Finally, the fact that our Finance Ministers make a virtue of their indecision on whether exchange controls will go or stay ... that doesn't count for much in the eyes of international investors, now, does it?"

The reference to international investors being "unenthusiastic" according to article four situates Manuel negatively especially because of what the *FM* refers to as his indecisiveness. Article two points out that "Once investors and speculators take flight, they can no more be persuaded to listen to second thoughts." In fact, article eleven notes "what foreign investors require above anything else is certainty," and Manuel did not provide that certainty.

4.2 Reflections of theories of media functions in the 1996 sample

4.2.1 Social Responsibility Theory

The first two articles in the 1996 study period demonstrate the social responsibility media theory. This is to the extent that the articles focus on the optimism the media has that Manuel is committed to improving the lives of the poor. Article two depicts Manuel as a champion of the poor and states the following "care passionately about social justice." This situates Manuel as a driver of social change and as a key constituent in the fight for social justice.

4.2.1 Democratic participant theory

It is hardly likely that democracy only becomes entrenched when media "in keeping government in check" only focuses on negative stories. For a country to advance, critical news writing is important. The media needs to recognise that it has an important role in shaping values and feeding perceptions by publishing positive stories. The *FM* shows evidence of this as indicated by some of the articles it published during the study period. Articles one, two and three suggest positive attributes to Manuel, while raising some negative evaluations; which however do not detract from the overall positive outlook in the three articles.

Further, even as Manuel belongs to the ANC which is in alliance with COSATU, the labour federation still has its own voice and as demonstrated by article thirteen contradicts the ANC on certain economic policies such as GEAR. In this article, COSATU's secretary-general opposes the ANC policy of privatisation and alleges that such a policy reduces the role government must play in the economy. In effect, the *FM* pinpoints government's weaknesses and depicts COSATU as a powerful force. The use of COSATU as a source that disagreed with Manuel seems to support the notion of democratic participant press.

Article thirteen, it seems, follows the fourth estate function of the media. Kieran (1997:25) postulates that in a democratic state there is a need to ensure that all institutions function in an effective manner thereby ensuring that the fourth estate[7] is a fully functional means of holding public representatives to account for their actions or non-actions.

4.2.3 Libertarian theory

The theory espouses maximum media freedom and advocates a media free to criticise government. The manifestation of this theory in some articles could be as a result of the South African constitution which propagates the freedom of the press. Criticism of Manuel and the government is direct. Article one shows traces of this criticism to the extent that his past credentials and performance in a previous portfolio are questioned. The article notes, "At Trade and Industry he did not display the transparency in policy formation which his predecessor tried at the Treasury." This critical reporting continues in article two which doubts Manuel's objectives and states "his motives therefore appear insincere and his actions seem without conviction". From article five the criticism becomes more pronounced, especially because of the depreciation of the currency. Article eight even questions the commitment of Manuel's party to reform. In the article, the *FM* doubts the ANC's commitment to reform." These articles seem to doubt Manuel's potential to manage the economy.

4.2.4 Developmental media theory

The final part of the 1996 analysis focuses on the developmental theory functioning. In a partially developmental state such as South Africa, one would assume that the development theory would perhaps be most prevalent in media reporting, but such assumptions are not corroborated in this study. In chapter one it has already been noted that South Africa, while a democratic state, is seeing increasing pressure from the government on the media to

[7] A term generally used to refer to the media industry because of the watchdog role the industry is expected to perform. The other three other estates, according to Kieran (1997: 25), are the legislature, executive and the judiciary. The notion of the fourth estate therefore comes in to ensure that there is no attempt to pervert the democratic process that elected representatives are held to account and that corruption is reported on.

determine what can be published. This may be seen as a self-serving drive on the part of government individuals and as members of one party. As outlined in the theory chapter above, government and the media should ideally work together to ensure that the media assists in the planned development of the country while critically observing its performance, too. In conducting this analysis, I sought to understand whether the media did in fact play this role.

Broadly, it would seem from the articles sampled for 1996 that Manuel is withholding certain information from the nation. This can be seen in article one, which states that Manuel preferred not to discuss details of a policy proposal at Nedlac. The *FM* calls this "not being transparent." It may well be, however, that Manuel withheld the information in the interest of nation development. Further, article five seems to strengthen this point. In this article the Treasury, the state department Manuel that leads, is also seen to be withholding information. The article notes, "outsiders see the fear in the Treasury and conclude officials know something they don't." In article eight, the *FM* seems to be supportive or in agreement with Manuel. In fact, not only is the *FM* in agreement with Manuel it also extends its view by stating that things will get better. The article notes "The current account deficit and capital inflows will decline. South Africans will prove they can do without some of the capital so abruptly withdrawn." This demonstrates confidence in Manuel's policies and shows a partnership approach to development. At the same time, the reference to South Africans who will be able to overcome the lack of money is a praise for the implicit audience as well as a call to financially conservative action.

4.3 Analysis of the 2007 coverage

The following analysis reflects trends observed in the 2007 sample of articles.

4.3.1 Positive framing

The first article that frames Manuel positively is article two. The blurb of the article poses "What will happen to SA's economic management when Mbeki and Manuel go?" The author of the article underscores the ecident media

confidence by stating, “The years of freedom have been better than business ever imagined they might be - thanks largely to the shared vision of Mbeki and his finance minister, Trevor Manuel, whose goal has been to build a business-friendly, globally approved economic environment.” This positive framing continues in article three, which notes, “SA has clocked up successes that are impressive whichever way you look at it: the economy, with 32 quarters of positive growth, has spurted to its fastest pace in more than two decades; the inflation dragon has been tamed; and government coffers are showing their first budget surplus in history.”

The positive framing of Manuel can also be found in the articles below. In fact, even articles that frame Manuel negatively do not refute the positivity; an example of an article that frames Manuel negatively but still creates a positive overall impression of Manuel is article four, which states, “One cannot accuse Manuel of profligacy - yet. The economy is on a historic high: a budget surplus was recorded last year for the first time in living memory and another is expected this year.” Article six credits Manuel for ensuring transparency in the budget process. The article notes that the transparency bought about by the three year budget framework allows members of parliament enough time to debate the budget.

Article seven reflects on the imminent change in administration and adds that the change should not reverse the good economic principles that Manuel introduced. In fact, the article boldly asks “But what is the political story of the coming year? How will the political environment help or hinder the achievement of finance minister Trevor Manuel's aims? As usual, it looks like politics will make things difficult for policy-makers.” This praises Manuel for managing the economy well and expresses hope that the economic foundation he laid is not reversed. This praise of Manuel continues on articles eight and ten. In these two articles Manuel is further commended for ensuring good economic management which made it possible for him to deliver on the promises made by his party. Article eight in fact, notes “budget was…the kind of master balancing act which people have come to expect from the 11-year veteran, credited with putting SA's economy firmly into the global arena while

also tackling the immense social challenges of unemployment and poverty." Article nine focuses on Manuel's team at National Treasury and commends the team on doing a coming up with sound policy proposals. The article even calls Manuel's team "high-powered."

In articles eleven and fourteen Manuel is credited for introducing debate about important policy changes. The first one is about the introduction of a national savings scheme and the other focused on plans to reduce currency movements that negatively affect South Africans who trade at the Johannesburg Securities Exchange. The move by Manuel is referred to as being good for the economy. Article twelve states how fast the economy has grown under Manuel's management. The article notes that the economy has grown "nearly twice the pace seen during the first decade of democracy."

Article fourteen makes reference to a light-hearted side of Manuel. The article is about letters calling for a tax on 'lobola'[8]. The letters were mentioned by Manuel during his budget speech in 2007. In the article Manuel is framed as a normal human being who can also be jovial. The overall thrust of the 2007 articles is positive and primarily focuses on Manuel's achievements, especially good economic management.

4.3.2 Negative framing

The 2007 study period begins with an article that frames Manuel negatively. At first glance the article appears to be praising Manuel on being generous by giving South Africans tax cuts. In the article Manuel is even called Santa Trevor, however, the main focus of the article frames Manuel negatively. This is because of Manuel's a decision to budget for a surplus. The article questions the decision given that millions of South Africans are poor. The article states "Given SA's huge income inequality and social deficit, this doesn't sit well with many. Why are we running a budget surplus when so many people don't have running water?"

[8] This is in reference to a tips campaign in which South Africans send ideas to the minister on what they would like to see included in the budget of the country.

Article four contradicts article one in that in article four Manuel is criticised for creating a welfare state. In the article the *FM* notes that Manuel is under pressure within the ANC alliance to deliver on social promises. It states "Manuel's bowing to the welfare genie is evidence that SA is vulnerable… It is payback time for the left flank of the ANC alliance." In fact, in the opening paragraph the article notes "The 2007 budget will be remembered for one reason: it has marked the point at which SA irrevocably committed itself to becoming a welfare state." This is viewed negatively by the media also because of the belief that welfarism will result in more taxes for those employed. The article states "Every employee will be faced with a new tax: a social security tax."

Article five critiques Manuel for not proving details about government's economic position. The article notes "The minister missed an opportunity to give clarity on government's economic outlook and provide creative interventions in labour-absorbing industries. Further, Manuel is also criticised for not being creative in allocating funds that would have assisted small businesses. This locates Manuel as a person who cannot effectively use taxes to assist emerging business people.

The final article that frames Manuel negatively is article fifteen which like article one criticises Manuel for budgeting for a surplus. It notes that a budget surplus may hurt the flow of development finance that some programmes of non-governmental organisations depend on. Budgeting for a surplus is therefore noted as a move that will hurt the poor because "…many donor countries are beginning to question whether it makes sense to give development aid to a country that boasts a surplus. Further, the article notes "According to some experts, many civil society organisations, particularly those dealing with HIV/Aids, education and other social development issues, fear that the SA government's surplus and the directing of aid to national budgets will cut them off from vital foreign aid flows." The above four articles therefore frame Manuel negatively as he is seen not to care about the poor.

4.3.3 Recurring descriptive words and phrases in articles

This section comments on positive and negative words and adjectives used in the different articles to portray Manuel. Positive words and adjectives include Santa Trevor, business-friendly, globally approved economic environment, prudent financial management, successes, impressive, attractive, efficiency, economy is on a historic high, priorities are pro-poor, economy accelerated strongly and pleasing. The use of these words and phrases frame Manuel positively and paint a picture of an individual who is held on high regard because of work he did in managing the economy well.

Negative words, phrases and adjectives used include income inequality and social deficit, volatile, official unemployment rate has risen to 25,6% dire poverty, unaffordable, exploding welfare bill, failed, welfare state, uncomfortable, vulnerable and harming. Interestingly, most of the negativity comes from Manuel budgeting for welfare services. The *FM*'s fear is that Manuel is condoning dependence on the state which will increase taxes for those who are employed. Using the above words, phrases and adjectives frames Manuel negatively.

4.3.4 Oppositional voices

The two oppositional voices mentioned in the articles critique Manuel for budgeting for a surplus in a country with poor people. Nazmeera Moola is the first oppositional voice in article one. She questions the reasons for budgeting for a surplus and notes, "Given SA's huge income inequality and social deficit, this doesn't sit well with many. Why are we running a budget surplus when so many people don't have running water?" König (2005).

The other voice, mentioned in article 15, is that of the SA NGOs which "challenged government on the issue of the budget surplus saying that a balance needed to be struck between fiscal prudence and responsible spending on basic services and infrastructure." These two voices frame Manuel negatively as a person who does not care about the needs of citizens who depend on government for support.

4.3.5 Economic/business voices

The articles mainly use comments from South African economists. There is one instance where an economist from London is used. All the economists quoted support Manuel and in fact commend him on how well he managed the economy. Razia Khan, Africa economist at Standard Chartered in London is the non-South African economist and is quoted as saying “SA…is unique in the extent to which it has been able to oversee fiscal consolidation and achieve a budget surplus.

The other three economists mentioned agree that Manuel has done well to improve the economy and the lives of South Africans. Iraj Abedian, CE of Pan African Capital said “SA is at that point where it can say, we turned the economy around, we have growth sustained and increasing.” This statement is similar to that of another economist Goolam Ballim who noted that there is upward mobility for previously disadvantaged individuals. SAIRR researcher Marco MacFarlane also holds a similar view and “says that if social grants are taken into consideration, there are probably a lot more people who are less poor.”

4.3.6 The ANC voice

The only ANC voice that is mentioned is that of Saki Macozoma, an ANC NEC member. This is in article two and the focus is on who would succeed Mbeki as President of the country, and the ANC and Manuel. Macozoma is quoted as saying "Most of us hope this will be settled by the policy conference and that basic economic policy will remain the same.” The need for economic policy to be continued portrays Manuel positively as it is a sign of confidence in the economic policies he introduced.

4.3.7 International voices

The only international voice mentioned is that of Razia Khan, Africa economist at Standard Chartered in London. Khan is quoted as saying “SA is now the poster child for fiscal efficiency in emerging markets.” This depicts Manuel positively.

4.4 Reflections of theories of media functions in the 1996 sample

4.4.1 Social Responsibility theory

Articles one, four and eleven mostly focus on the social aspect of Manuel's work. In the articles Manuel is portrayed as a champion of the poor. Article four for example states that over 12 million South Africans receive social grant. Further, the article explains that "These grants are primarily means-tested old-age pensions and child support grants." The articles frame Manuel positively by crediting him for prioritising social expenditure and ensuring that resources are channelled to pro-poor policies."

4.4.2 Democratic participant theory

The theory is mainly evident in the criticism on taxing South Africans and financing social security spending. The media views this negatively and points out that it is not sustainably given the things government must fund. Article four states "Every employee will be faced with a new tax: a social security tax, in the vein of the national insurance contributions collected." Further the article notes "When revenues fail to support welfare liabilities, the only politically feasible option is to defer the cost to future generations."

4.4.3 Libertarian theory

It has already been stated that the main criticism of Manuel by the *FM* in 2007 centred on two points. These are the decision to budget for a surplus and creating a welfare state. This criticism is mainly found in articles one, four, five, eleven and fifteen. Article fifteen for instance notes that with Manuel having budgeted for a surplus, donor aid to South Africa could be reduced by donor countries. The reason would be because South Africa would appear to be doing financially well and not needing financing support for some of its programmes like the HIV and Aids programmes. The funds would then be provided to other countries. This frames Manuel negatively as his policies are seen to be hurting those who need aid support.

4.4.4 Developmental media theory

The articles all suggest that Manuel performed well in developing the country. Article two for instance explains that Manuel achieved the goals he had set for the country's development. Article eight is similar to article two and notes "credited with putting SA's economy firmly into the global arena while also tackling the immense social challenges of unemployment and poverty." The same article also states that "Manuel gave business a welcome and unexpected boost, announcing the staged abolition of the hated secondary tax on companies." These are some of the things Manuel did that contributed to the development of the country and this is viewed positively by the *FM*.

CHAPTER 5: CONCLUSION

The study is a content analysis of a sample of articles published in a South African English-language financial magazine, *Financial Mail*, from 5 April 1996 to 28 June 1996, and 23 February 2007 to 13 April 2007. The study sought to evaluate the framing of Manuel by an analysis of the coverage about him in the *FM* and how that may have shaped public opinion about Manuel.

The analysis demonstrates that the coverage has not been uniform over the time periods of the Minister's career. When he first took office in 1996, Manuel was criticised by the publication as shown by the articles analysed in chapter four. However, eleven years later, the same publication carried positive stories about him.

It can be observed that in 1996 during the study period, there is mistrust of Manuel. *Financial Mail* articles framed Manuel as a person who does not know how to fulfil his duty as a minister of finance, suggesting that he did not provide needed certainty to investors, and as an individual whose lack of knowledge about how markets work, and in particular, his much cited comments that markets are an 'amorphous entity', led to the depreciation of the rand. Manuel's negative framing must also be understood in the context of the adoption of the GEAR strategy, which was heavily criticised by COSATU and other sectors of society. In fact, these four points formed the basis of the negative framing about Manuel in the *FM* in 1996.

The 2007 period, as the articles in chapter four illustrate, shows a different framing of Manuel. The overall framing of Manuel in the 2007 study period is positive. The media credits Manuel for managing the economy well and ensuring that South Africa has sound economic policies. The basis for some negative framing of Manuel in 2007 is a decision to budget for a surplus in a country where millions of people are poor. The *FM* articles suggest that Manuel could have used the funds to further finance programmes which could result in the social relief of the poor. Interestingly, however, part of the negative framing was also motivated by criticism that Manuel was creating a welfare state by continuing to fund social betterment programmes such as social grants. This in fact contradicts the former position which criticised Manuel for not allocating enough money for social relief programmes.

When compared to the 1996 coverage, it can be seen that the negativity seen in the initial period of his tenure had disappeared in 2007. There are articles that frame Manuel negatively, even in 2007. However; the level of negativity is not as pronounced as it was in 1996. The positive and negative framing of Manuel in both study periods can be seen to have contributed to shaping public opinion. The intellectual public initially did not trust Manuel (in 1996) but in 2007, demonstrated confidence in him. This the power the media has in shaping public opinion based on how positively or negatively it chooses to frame an individual.

The *FM* provided a variety of views by using different voices to comment on Manuel, his role and his actions in the articles sampled for both study periods. This reporting can thus be considered as balanced and fair ,as the magazine did not rely on a given opinion about the finance minister.

The *FM* articles suggest evidence of framing and agenda-setting, which have been contextualised in the political atmospheres of the respective periods above; nonetheless, there is a broad scope of opinions in the magazine over both periods. Manuel's actions, as a topic, were primarily placed on the public agenda as a focus of debate and discussion by the trade union, economists, academics and the ANC.

Lastly, despite some evident negative framing in 1996 and more positive framing in 2007, the articles however, suggest that the *FM* does not, in any of the articles, attempt to solicit a voice from ordinary citizens of South Africa for a broader public opinion. This would have contributed in gaining insight into how the general public viewed Manuel**.**

5.1 Suggestions for further research

There are areas that the study did not focus on, which may require further research. In the context of framing, an investigation on whether a commercial publication in its news framing may be influenced by political agendas, party affiliation and the financial status of the owners and audience could contribute to further research. Further, a much broader study could be done on how Manuel was depicted in a daily publication with a wider reach over the same study periods (1996 and 2007). This would contribute to the study of framing within the economic context, to assess how it may shape public opinion.

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5 April 1996 – 28 June 1996 summary of articles

(see pages 76 to 126 of this document)

NO:	HEADLINE	SYNOPSIS	AUTHOR	DATE	PG
1.	Moment of truth for ANC's Trevor Manuel	SA has at last in Trevor Manuel a Finance Minister who speaks with the authority of the party.	No byline	5 April 1996	15
2.	Cabinet reshuffle: what it means for economic growth: time to move beyond transition. Have we been dealt a strong hand?	Ironically, the appointment to crucial posts of people who came to parliament on a populist ticket has been seen as positive by financial markets and the business community.	No byline	5 April 1996	16
3.	Cabinet reshuffle: Enigma of Jordan's axing	Why was Pallo Jordan axed when everyone can name other Ministers whose inexperience or ineptitude might seem to have made them more likely candidates?	No byline	5 April 1996	36
4.	The message from the markets: why the rand is testing the confidence barrier. How much farther can it fall?	The rand is a weak currency trading in an uncertain political and economic environment.	David Gleason	12 April 1996	18
5.	The rand: courage is needed	For the second time in two months, exchange control has become a major talking point; at the same time accompanied by yet another sustained attack on the currency, which has now depreciated by something around 12% in a comparatively short period.	David Gleason	12 April 1996	71
6.	The ANC, policy uncertainty and the financial markets. It's time to save the rand	A rand that loses value over an extended period erodes the wealth of the nation and undermines the foundations of the economy.	No byline	26 April 1996	31
7.	Collapsing rand. Market skepticism over economic welfarism	Over the past nine weeks, South Africans have lost nearly a quarter of their wealth as the rand has fallen to record lows against the US dollar.	No byline	3 May 1996	19
8.	Clutching at straws or a real turnaround?	Government and Manuel are seen not to be offering certainty to the markets	No byline	10 May 1996	21
9.	Who is really king of the castle?	After his savaging at the hands of the "amorphous" market, you would think Finance Minister Trevor Manuel would have the sense to be silent for a while.	David Gleason	10 May 1996	96
10.	De Klerk exodus from silken sinecures. Testing times ahead for NP	Voices within the NP caucus were being raised that the party was being too accommodating to the ANC -- against which it fought a brutal war for decades.	No byline		20

NO:	HEADLINE	SYNOPSIS	AUTHOR	DATE	PG
11.	Rising interest rates and scapegoats. Blame where it's due	The banks' decision to pre-empt a rise in Bank rate is not a ploy on their part to discomfit Cosatu or embarrass the Minister of Finance.	No byline	24 May 1996	39
12.	Rand reflects perceptions	Raising rates would punish SA consumers and do nothing for the rand… The consequences of the rand's collapse are clear enough: high real interest rates and no chance for fiscal policy over the next year.	Brian Kantor	24 May 1996	50
13.	Struggle for the ANC's ideological soul	Sam Shilowa's recent lashing out against big business in general and the idea of privatisation in particular obscures the real target and purpose of his attacks.	No byline	7 June 1996	22
14.	Manuel prescribes cautious Thatcherism. Time for bold decisions imminent	Government's new economic policy… is a necessary condition to attain the levels of growth and job creation needed by the turn of the century.	No byline	21 June 1996	20
15.	Labour market reform. Flexibility the watchword	Minimum wages were uppermost in the minds of labour, business and prospective overseas investors awaiting Labour Minister Tito Mboweni's crucial labour policy reform proposals this week.	No byline	21 June 1996	45
16.	Privatisation: Choosing the banker	Government's privatisation plans are back on track after labour jettisoned the process six months ago.	No byine	28 June 1996	47
17.	Manuel's macro-economic framework. A goal not a forecast	Scenario projections are not a hard forecast. GDP growth of 6,1% in the year 2000 is a goal -- not a prediction.	No byline	28 June 1996	36

16 FEBRUARY 2007 – 13 APRIL 2007 summary of articles

(see pages 128 to 177 of this document)

NO:	HEADLINE	SYNOPSIS	AUTHOR	DATE	PG
1	"A necessary surplus"	Manuel is referred to as Santa Trevor and questions about what surprises there are in his budget "gift bag" " We've had a generous Santa recently."		16 Feb 2007	34
2	No U-turn	What will happen to SA's economic management when Mbeki and Manuel go?	Carol Paton	23 Feb 2007	Cover story
3	"Mbeki's economic legacy: An eye for a winning team"			23 Feb 2007	Cover story
4	"The risks of a shift to state welfarism"	The 2007 budget will be remembered for one reason: it has marked the point at which SA irrevocably committed itself to becoming a welfare state.		23 Feb 2007	16
5	Big picture missing	The surplus signals a change in government's macroeconomic management plan.	Réjane Woodroffe	23 Feb 2007	18
6	Do we have enough say	The MTBPS provides information on budget allocations and priorities over the same period, and indicates how the intended expenditure will be financed.	Prakash Naidoo	23 Feb 2007	38
7	Long road ahead	As usual, it looks like politics will make things difficult for policy-makers.	Carol Paton	23 Feb 2007	42
8	Manuel rolls in it	Manuel exploits record economic position to deliver for the poor.	Mariam Isa	23 Feb 2007	
9	Treasury's A team	The release...of the second discussion paper on "Social security and retirement reform" is the culmination of almost three years' work by a high-powered team from national treasury.	Sven Lünsche	2 March 2007	Cover story
10	A soft landing at 5% is good news	The economy grew by 5% and that is called the story calls that " welcome news.		2 March 2007	46
11	Economic Impact: Enforcing our social duty	A national compulsory savings scheme will probably be good for the economy.	Mariam Isa	2 March 2007	47
12	Fast forward	Activity in the three biggest sectors of the economy - finance, manufacturing and retail trade - drove growth in the fourth quarter to 5,6% from 4,5% in the third quarter, according to figures released by Stats SA.	Mariam Isa	2 March 2007	48

NO:	HEADLINE	SYNOPSIS	AUTHOR	DATE	PG
13	Talk on a hot topic		Justice Malala	9 April 2007	91
14	Many bets steady the boat	Plans to allow South Africans to trade futures in the rand on the JSE are a welcomed move.	Mariam Isa	9 April 2007	42
15	"Development funding: Aid in the balance"	In February finance minister Manuel budgeted for an R11bn surplus for the current fiscal year after he had brought down the deficit consistently in previous years.	Thandeka Gqubule	13 April 2007	32

Moment of truth for ANC's Trevor Manuel

After two years of ANC rule, SA has at last in Trevor Manuel a Finance Minister who speaks with the authority of the party. From his conduct a more rational assessment of the intellectual integrity of its policies may be possible.

What has dogged the party since its election is inconsistency. On the one hand, it espouses fiscal discipline and monetary restraint that suggests it has embraced the need for limited government, the allocation of resources by the market and increasing international competitiveness; on the other, it espouses social and welfare policies that are reminiscent of developed economies where taxes are high, unemployment is endemic and there's a trade-off between high wages and protectionism.

With Ministers from the ancient regime presiding over the Treasury, foreign investors derived some comfort from a belief that welfareism would be held in balance by fiscal and monetary restraint. Without that comfort, foreign investors are unlikely to be enthusiastic about supplying Manuel with the wherewithal he needs to push the economy's growth rate up to 6% by the turn of the century -- which both government and business acknowledge is necessary if there's to be a vigorous rise in employment.

Manuel needs to supply that reassurance swiftly. if the growth target is to be met. So far, what he has been reported as saying about being reluctant to increase Vat is not encouraging. Nor is his record at Trade & Industry, where ministerial procrastination bedevilled progress towards trade liberalisation and other appropriate policy objectives.

What is encouraging, however, is that Manuel does have the Reconstruction & Development Programme under his control. He will be in a position to stop any leakages from what is left of the RDP into the budgets of health, education and telecommunications, where profligacy is most likely -- if only because these Ministers have suspect knowledge of what their proposed policies will cost.

But Manuel is facing greater obstacles outside of the Cabinet, which he will have to handle with uncharacteristic circumspection.

At Trade and Industry he did not display the transparency in policy formation which his predecessor Chris Liebenberg tried at the Treasury. Indeed, Manuel did not want his competition policy discussed at Nedlac, where government, labour and big business conspire to negotiate their own interests.

He appears to have difficulty in distinguishing between lobbyists seeking economic rents and negotiators whose legitimate interests are at stake.

This week Cosatu, the trades union umbrella body, announced a policy aimed at creating jobs by taxing the rich and forcing up the cost of doing business. It's not a policy that can claim successful application anywhere.

And it displays no awareness whatsoever that jobs are created by entrepreneurs to whom rigid and punitive labour laws are a material disincentive.

The absence of an increase in Vat in the latest Budget, and the failure to address the challenge of privatisation, suggests that labour's veto will not easily be renegotiated by even an ANC Minister. For his sensitivity, sincerity and political integrity will be questioned with hostility if not malice. And if labour doesn't nobble him, the Constitutional Assembly might simply render him ineffectual. For if the Bill of Rights applies (as it does in its present draft) to relations between individuals as well as between the individual and the State, the consequent horizontality will place an obligatory social engineering responsibility on the judiciary. If that happens, the spending sanction of the Finance Minister could become unconstitutional.

Both the labour movement and the horizontality of the Bill of Rights are major impediments to sound finance, as well as to growth and employment. So Manuel may find he can barely toe the line of fiscal discipline, let alone move across it with policies that will foster the desirable 6% annual economic growth rate within the near future.

To what extent support from his deputy, Gill Marcus, and his successor Alec Erwin at Trade & Industry, will enable him to move forward is not yet clear. Both appear to be

sound on the need for financial restraint. But Manuel himself is a loner, quick to take umbrage though not unwilling to change his mind as new facts emerge.

What is certain, however, is that without the considerable support of the President Manuel will achieve little more than did Liebenberg -- whose failure to be candid about his frustrations in office violates government's own transparency obligations and is hardly in the public interest.

CABINET RESHUFFLE: WHAT IT MEANS FOR ECONOMIC GROWTH

Time to move beyond transition

Have we been dealt a strong hand?

Ironically, the appointment to crucial posts of people who came to parliament on a populist ticket has been seen as positive by financial markets and the business community. Perhaps even more ironic: the main source of discontent is that a member of the SA Communist Party didn't get Finance.

Trevor Manuel, a member of the UDF detained under emergency legislation and at times the bane of business, was received calmly by the markets. After an initial wobble when the news of his promotion to the post of Finance Minister leaked on Thursday, bond and currency markets stabilised (see page 26). Business is guardedly optimistic, impressed by his hesitant advances but wary of his sometimes emotional responses to practical issues.

The appointment of Gill Marcus, who spent 15 years working in the ANC's London office, as Deputy Minister has been received with equanimity. Her chairmanship of the Joint Standing Committee on Finance elevated its status and won her a reputation of independence of mind, openness and awareness of the canons of sound finance.

Alec Erwin, in his moderation and support for his Minister, has won respect and inspired confidence at home and abroad. He is to head Trade & Industry.

The closure of the RDP office and the transfer of its functions is an acknowledgment that it was ineffectual. Deputy President Thabo Mbeki will be responsible for implementing projects. And Finance will handle the funding.

The RDP Fund has, anyway, been nothing more than a label for funds earmarked for projects but routed through the departments responsible.

Its closure could be seen as reduced confidence in former Minister without Portfolio Jay Naidoo. But the truth is the task was beyond reasonable achievement. In the early days, after the unbanning of the ANC, its policy makers started planning to reverse economic inequities. Over time, their perceptions of how this could best be done changed. But, ahead of the elections, extravagant promises were made and the RDP office was put in place to fulfil them. That it could not deliver should be seen as the collective failure of the economic endeavour of the Cabinet.

This is possibly why Naidoo has been given a second chance at Posts & Telecommunications, a complex ministry requiring a mix of sagacity and pragmatism that defeated former Minister Pallo Jordan, now out of the Cabinet.

The ANC has stressed the closure of the RDP office is not an end to ANC efforts to tackle poverty. It could be argued, indeed, that it is the beginning of government's efforts in this direction.

There is a growing realisation that only a political appointee to Finance will carry the necessary authority and conviction to persuade investors of government's economic integrity and ordinary folk of its political dynamics.

The replacement of the politically neutral Liebenberg is an important milestone in SA's progression. He and his predecessor, Derek Keys, played an essentially transitionary role. Their reputations in the business community inspired confidence, as did their skills.

This gave ANC members in government the chance to establish some sort of track record. But their detachment, which is an inevitable consequence of neutrality, was bound in time to become a liability. For it would increasingly become unclear whether their actions reflected government thinking or their own.

Unfortunate as it is to have three Finance Ministers in three years, the time is right for a political appointee. Only the National Party, which never considered depoliticising the post over 45 year, finds it inappropriate.

Presumably, members assume Manuel will follow the example of his pre-Keys predecessors who routinely diverted economic resources to vote-catching devices

such as massive agricultural subsidies and negative real interest rates. To establish his credibility among the investment community at home and abroad, Manuel will have to prove them wrong.

Like many who care passionately about social justice, Manuel believed government intervention could achieve it. He has only reluctantly moved from interventionism to the market mechanism as a means to foster growth, create wealth and encourage its distribution.

This has led him down some unproductive byways. Among them was his insistence that foreign trade agreements include a social clause. Not even Cuba, which complies with all the requirements of the International Labour Organisation, was prepared to accept this. Cuba's resistance flowed from its perception that the concept was floated by the US and a number of other powerful countries as a protectionist device.

When first in office, Manuel appeared to equate the size of a business with monopoly and abuse. And he saw a draconian competition policy as a means of creating wealth rather than stifling it. His stance was distinctly antibusiness.

Surprisingly, he is now described as "pro market," which implies he is not unfriendly to business. Certainly, he has started to see the means and the purpose of competition policy in a different light. In August last year, he told parliamentary journalists that an effective antitrust policy is impossible as long as exchange controls remain in place. The FM reported at the time: "He was at pains to point out that the idea that big is bad had been laid to rest. To be competitive globally, SA needs large firms."

At that stage, he expected a draft Bill to be ready by September but it has not yet been published. At a press conference in February, he spoke of amendments to existing legislation affecting competition policy. But he said: "There has been too much passion about competition policy. We need a clinical approach. We are nowhere near a Bill I could put my name to. Antitrust legislation must make a contribution to growth, not rip the competitive heart out of our industries."

Only a confident and competent man could afford to change his mind. The problem with his progression is that the direction has not been consistent and his statements have created confusion about his intentions. As a belated convert to markets, his gut reaction to issues is often emotional. His motives therefore appear insincere and his actions seem without conviction.

Presumably his comments on Vat, soon after his appointment, fall into this category. Asked whether he would increase the tax, he spoke heatedly about regressive taxes on the poor. There are valid reasons for increasing the Vat rate and if in future he decides to hold it at the present level, he should be able to justify the decision in clinical terms.

But better a temporary inconsistency than stubborn intransigence. The Sunday Times has reported him saying: "It's a test of whether you have the humility to take advice, whether you have sufficient understanding of the broad policy framework and sometimes the guts to make decisions that are not popular." Business Day quoted him as saying he and deputy Marcus would have to work hard to prove the sceptics wrong as there's no margin for error.

This attitude is encouraging. But he is right about the slender margin for error. In his previous job, he was able to learn in relative obscurity. As Finance Minister, he is too exposed to make a costly mistake. And, at this point in the business cycle, there is only the narrowest chance that could too easily be missed.

The economy is slowing -- either a turn of the cycle or simply a pause in a growth phase. This limits the potential for reducing the Budget deficit. And a slip now could see us sliding into recession with the debt burden ballooning.

Manuel will also have to take account of financial markets which are notoriously overreactive. Like a highly strung horse, they often fail to distinguish between a behemoth and a butterfly. Once investors and speculators take flight, they can no more be persuaded to listen to second thoughts than a horse will stop to reconsider the butterfly. And, once they have gone, investors will be coaxed back only at a huge premium to economic fundamentals.

However, Manuel has the solid backing of Marcus, who has had plenty of opportunity to explore the pitfalls of financial management. Moreover, she has pervasive influence inside the ANC. Said one commentator: "She is strong on fundamentals and no political patsy."

The most disconcerting aspect of the change was its timing. Why did Liebenberg resign now? There is no suitable moment -- but doing so directly after the Budget and before it is steered through parliament means it will have to be defended by those less familiar with its genesis.

There have been rumours of dissension. And it would be surprising if there had not been strains between an independent Finance Minister and his Cabinet colleagues. Liebenberg was reluctant to fill the post in the first place. He accepted because President Nelson Mandela saw him as the man to calm the markets unsettled by Keys's resignation. So, unlike a professional politician, he had no incentive to stay. His policy, government and career were not at issue.

Presumably, his decision to leave prompted the reshuffle. In that case, a number of quick decisions would have had to be made. In many ways, the hasty rearrangement has placed people in appropriate places.

Erwin, as a former trade unionist, will have to handle problems arising from trade reforms which leave previously protected industries exposed to international competition.

There are reservations about him. As a labour representative in the National Economic Forum, which preceded Nedlac, he expressed strongly interventionist views. And, in Trade & Industry, there are opportunities to implement vigorously proposals which Manuel left in limbo. Analysts have expressed anxiety that, removed from the exigencies of reducing a deficit, he may be tempted to revert to his philosophical roots.

But his performance in Finance did not cause disquiet. Presumably, like Manuel, he will have to move with the times. He is certainly intelligent and pragmatic.

Likewise, Naidoo, whose career is rooted in Cosatu, will have to negotiate with unions over Telkom's privatisation.

Manuel takes over at a new, but no less crucial juncture than did Keys. Peaceful elections do not mean that the economic challenge has even been recognised, let alone won. He is going to have to overcome the inconsistencies of his own performance these past two years as well as those of the broader policies of the Cabinet. Simply put, to be successful, he will have to establish the integrity of the ANC's intellectual acceptance of the policies it espouses -- and do so swiftly if the objective of 6% growth in GDP is to be achieved by the turn of the century.

CABINET RESHUFFLE

Enigma of Jordan's axing

One important question that lingers now that the implications of last week's Cabinet reshuffle have been absorbed is: why was Pallo Jordan axed when everyone can name other Ministers whose inexperience or ineptitude might seem to have made them more likely candidates?

Nelson Mandela correctly pointed out that it was constitutionally necessary to ditch a Minister -- each party's entitlement to executive posts is determined by their proportional showing in the April 1994 election. Although the spirit of the interim constitution -- where it deals with presidential powers -- mandates wide consultation prior to implementing such changes, it is obvious the President has the right to change his Ministers.

The appointment of Trevor Manuel as Minister of Finance was the first time Mandela has chosen a leading ANC figure for this key post. Neither Chris Liebenberg nor Derek Keys wanted the job; but they accepted in the national interest -- after all, they held office during a pivotal period during which the world investor community wanted to see that the ANC could achieve good governance and fiscal discipline.

That period has passed (see Cover Story). Should the ANC win the 1999 election, assuming it is fought on a winner-takes-all basis, the President will be entitled to make all ministerial appointments on party-political lines. This is normal practice.

Some comparisons are illuminating in relation to Jordan's future role within the ANC. Did he perform any worse at Posts, Telecommunications & Broadcasting than Nkosazana Zuma at Health, Ben Ngubane at Arts, Culture, Science & Technology, Stella Sigcau at Public Enterprises or Alfred Nzo at Foreign Affairs?

Jordan is an aloof intellectual who often, in public, seems arrogant and uncommunicative -- hardly the ideal qualities for a ministry that would appear to demand a transparent sense of purpose. You might say he was the Hamlet of the Cabinet. Nonetheless, in his post, he displayed independence and intellectual

courage -- repudiating, for example, Thabo Mbeki's suggestion that airtime be specifically allocated to promote government aims.

He came to the ministry after heading the ANC's Department of Information & Publicity but was able to make a clear distinction between his role as a party functionary and a senior member of a coalition government where neutrality remains an ideal not often achieved.

In exile, he was detained for six weeks in the Eighties by the ANC's security wing -- an episode never fully explained. Again, it suggests independence and moral courage.

One could contrast this with Nzo's inability to make strong and essential political choices on which countries we should be associated with: China or Taiwan, the US or Cuba and so on.

Jordan has never liked the SA Communist Party. In 1990, after the anti-apartheid movements were unbanned, he wrote of the SACP that its leadership had over the years "produced a spirit of intolerance, petty intellectual thuggery and political dissembling among its membership." This ran strongly counter to the then prevailing love affair between the SACP and the ANC, a bond that has since weakened.

Jordan's criticisms of Winnie Mandela's behaviour were apparently vociferous, too -- and predated Mandela's final acceptance of her adultery, though not her guilt in the criminal proceedings brought against her. Mbeki was mandated to deal with the Winnie problem as an internal party matter and Mbeki kept patience far longer than one suspects Jordan may have wished.

This is not to suggest that the Cabinet reshuffle -- which some have said consolidates Mbeki's position as heir-apparent to the presidency -- contained an element of animus towards Jordan. Mandela had some tough choices to make -- particularly when it is considered that if Cyril Ramaphosa brings in an acceptable new constitution on time, he will, surely, become available for a senior ministerial posting.

It would be at that point -- which depends on whether the Constitutional Court certifies the document quickly or refers it back for reconsideration -- that the performance of slack Ministers would come under sharper scrutiny than last week.

Zuma has the full support of the ANC. To have axed Jay Naidoo in the same breath as closing the RDP office would have been a major blunder regarding populist expectations fuelled by RDP propaganda. Nzo -- though regarded as an extremely odd choice for Foreign Affairs -- has a long history of service to the liberation movement, but to have dropped him at this stage would have left a vacuum in a portfolio that, conceivably, might be filled by Ramaphosa at the appropriate time.

Will Jordan become a focus of ANC dissent against the expanding powers of Mbeki? This is possible, given his history of independent thinking. There is also the fact that once the new constitution is fully operational, MPs will be allowed to switch parties. But even if he wished to do so, where could Jordan go?

The Government of National Unity has fossilised party allegiances. Once this changes, new parties and alliances are likely to emerge. It would be surprising to find Jordan and Mbeki in the same grouping once fluidity re-enters our political life.

THE MESSAGE FROM THE MARKETS

Why the rand is testing the confidence barrier

How much farther can it fall?

Manuel in a group photo on the cover, caption is – what went wrong with the rand

There's no knowing where the floor is for the rand. It is a weak currency trading in an uncertain political and economic environment. In these circumstances, volatility has to be taken for granted.

Even if it stabilises over the next few days, an injudicious ministerial comment or an ill-considered rumour may undermine its value.

The instability is aggravated not by government's expressed commitment to remove exchange controls but by its reluctance to do so. Not much more phasing out can take place. Until the authorities take the leap and abolish the controls, those who are sceptical of the outcome will inevitably take positions against the rand.

Graham Boyd of Simpson McKie James Capel's strategy department suggests the market has been trying to find a level for the rand which would be appropriate when exchange controls end.

If the Cabinet fails to make this crucial decision, the rand would be vulnerable to another major speculative attack, says Carmen Maynard of Fleming Martin.

Often a large and sudden exchange rate depreciation is a not-so-early warning of a serious deterioration in fundamentals. But there is no weakness in the economy that was not present when foreigners were happily buying rand instead of selling. So the recent depreciation may have more to do with the different perspective from which funda- mentals are being viewed.

One reason could be a broad belief that though there may have been no open acrimony between former Finance Minister Chris Liebenberg and members of the

ANC in government, he could have felt his role was limited because he lacked Cabinet support on crucial issues.

On occasions, promises made by Ministers over the delivery of costly services did not add up to the figures produced in their budgets. But they were not publicly repudiated and must have left more than doubt about government's commitment to fiscal discipline. His resignation, directly after the Budget, gave credence to this sort of speculation.

The new appointee, former Trade & Industry Minister Trevor Manuel, is relatively unknown and has not been a model of consistency. Merely having a new Minister in the post is unsettling in a market that has become increasingly jittery.

Uncertainty arises, too, from the publication of the Cosatu growth strategy, which suggests that the notoriously inflexible labour market is likely to remain.

To change these perceptions, government will need to:

- Abolish exchange control;
- Make good or better on its half-promises about privatisation; and
- Review its stance on labour legislation.

There are also doubts about short-term growth potential. Boyd believes the shift in sentiment could also result from offshore concerns that the business cycle may be levelling off.

It is not clear that the cycle has peaked. The evidence is inconclusive. But it is nearly three years since its lower turning point. "The recovery is in a mature phase," says Boyd, "and we find foreign investors certainly aren't showing the enthusiasm they were last year this time."

If growth is levelling off, there will be an important knock-on effect for the stock exchange. Smith Borkum Hare economist Jos Gerson says even a slight reduction in the rate at which demand for goods and services is growing causes a substantial reduction in earnings per share.

Since the Eighties, major corporations in SA and abroad restructured and became more efficient. And they are able to multiply the benefits of an expansion in consumption. But, unfortunately, the leverage to profit growth works in reverse when the cycle subsides.

"Not that growth in earnings per share is going to be really low," says Gerson. "But it will be substantially down from the annual growth of 37% seen towards the end of last year."

There is a difference of opinion about the impact this will have on investors. Gerson argues that earnings growth of companies will probably still exceed those of other emerging markets "outside of Chinese-related markets."

Maynard, however, believes other emerging markets will offer more attractive equity opportunities. As for bonds, she points out foreign buyers of bonds came in when yields were about 16% and took them down to 13,25% in February, before the selling set in. Subsequently, the rate rose -- to 15,7% on Tuesday.

This coincides with another development. Says Gerson: "There was a bull run in the global bond market from early 1995. US investors started looking at emerging markets. High yields that could be earned in rand made it a favoured currency -- so much so that institutions outside SA started selling rand-denominated bonds.

"When the US bond market turned sour early this year, they dumped not only US bonds but emerging market positions."

Figures from the Bond Market Association show the cash value of net transactions by nonresidents turned negative in March with net sales of R279m. Last week, net sales were R824m.

Figures from the JSE show nonresident equity transactions are not closely tracking the rand. They remained positive in the week to April 5, at R146m. But levels in recent weeks have been lower than in December when they touched a weekly high of R321m.

The shift came at a time when the currency was in a state of delicate equilibrium. "An important element in the situation," says Gerson, "is that pent-up consumer and investment demand was so strong that Reserve Bank Governor Chris Stals was obliged to maintain the abnormally high interest rates which helped draw offshore investors. But high yields are only an attraction as long as the currency remains strong."

Once signs of rand weakness emerged, the rush out of the rand accelerated. As Stals explained at a press conference, capital flows, internationally, dominate foreign exchange transactions. He puts them at 70 times gross turnover based on current account transactions.

So the rand fell from about US$/R3,60 in mid-February to $/R4,12 at the start of the week.

Official gross gold and foreign reserves fell farther in March (see graph) to less than R14bn, which, at the start of the week, translated into about $3,4bn and seven weeks of import cover.

The depreciation was set in motion by a configuration of rumours that proved inaccurate: that President Mandela had suffered a heart attack and that exchange control was about to be abolished.

Possibly rumours were promoted by dealers short on rand for ulterior purposes. But they reflected an uneasiness about SA's stability and that reasserted itself in March.

After a brief respite when the currency stabilised at around $/R3,90, rumours of Liebenberg's resignation sent the rand sliding again.

But, when the announcement came late on Thursday, March 28, that he was to be replaced by former Trade & Industry Minister Trevor Manuel, currency and bond markets calmed.

Between then and the following Monday, about mid-morning, the rand held at around $/R3,90.

The latest bout of weakness came when rumours of Stals's impending resignation started to circulate along with rumours -- again -- that exchange controls were about to be abolished.

And despite repeated denials of both rumours, the rand continued to fall to $/R4,15 on Tuesday.

But the situation is very different from the one that arose in 1985, when foreign direct investors started leaving. The short-term nature of the funds makes them less of a loss.

There is another difference between the present episode and the 1985 rand devaluation. Says Boyd: "Everything was in turmoil. There was no clear direction for the economy and interest rates were low. The latest bout is a reflection of currency market volatility that affects all currencies from time to time. We are now part of the real world."

Stals told a recent press conference: "Over the past few weeks, there has been exchange rate speculation but not huge withdrawals of investments and reserves haven't changed that much."

What happened, he said, was that during the eight months of exchange rate stability, "many foreign investors took positions in the rand. In the three months of December-February, the inflow through the JSE exceeded R6bn."

Investors and speculators also acquired exposures through Eurorand issues. European institutions issued paper as principle borrowers in rand. By the end of February, says Stals, there had been R6bn in primary Eurorand issues. "These people had open rand positions and, when the exchange rate adjustment took place in February, many of them decided to cover their positions."

The Bank, which had been reducing its role in the forward market, decided to reverse direction. "To bring some stability, we have been providing substantial amounts of forward cover. This has been on a commercial basis, not at subsidised rates." Thus Stals attributes much of the latest slide to attempts to find rand hedges.

Events of the past two months have focused attention on the dangers of putting a single step wrong.

The March edition of the IMF and World Bank publication Finance & Development says developing economies are becoming integrated into the mainstream of the international economy. This creates new opportunities for them but they are accompanied by "tough new challenges to economic management. Integration requires adopting and maintaining a liberal trade and investment regime."

SA's emergence from apartheid and sanctions has coincided with accelerated liberalisation and globalisation of financial markets, which have effectively moved the goal posts for countries striving to be competitive.

The ANC's tentative moves in the right economic direction are failing to keep pace with expectations about performance. SA will pay a price if its economic policies are suspended in indecision. In making its choice, it must demonstrate not only the political acceptance of its policy but its economic literacy.

In the short term, export earnings gain when a currency depreciates. If these gains are used to help bring about the changes to economic policies we have outlined, the outcome could be salutary.

The real danger is not in what has happened to the rand's value so far; it is that government might come to regard constant depreciation as a substitute for sound money, fiscal discipline and financial prudence. If that happens, widespread poverty is inevitable.

The rand: courage is needed

For the second time in as many months, exchange control has become a major talking point. At the same time -- inevitably, perhaps -- the chatter is accompanied by yet another sustained attack on the currency, which has now depreciated by something around 12% in a comparatively short period.

Naturally enough, it's a matter which attracts considerable attention and is dealt with in detail in Economy & Finance in this issue. However, I feel compelled to add my own two cents' worth.

When the rand suddenly slid to R4,11 to the dollar last Wednesday, new Finance Minister Trevor Manuel was moved to deliver a TV homily. He blamed the speculators and warned that they would be led to an angle on their anatomies they didn't normally see the next day. The Reserve Bank supported the currency for a short while. Since then, it has spiralled downwards again and, as the FM goes to press, is close to its worst level ever.

And Manuel thought it proper to deny rumours that exchange controls were about to be lifted. These, he said, weren't true, and in any event he was a believer in the gradualist approach to removing the currency barriers, clear evidence that he's been converted to the standard Reserve Bank text on this issue.

Meanwhile, interest rates continue to provide the most eloquent commentary on the state of affairs. At the long end they are rising steadily; indeed, over just 10 days they have increased by nearly 1%.

What this illustrates is that the market isn't interested in the stories it's being fed. The Minister talks about gradualism (so did the last one, and the one before that); the Bank's Governor says no, he's not resigning and then adds -- three times in the same interview -- "at this stage." Finally, Stals washes his hands of it; it is, he says, a political decision.

But you know, the market is nothing if not tolerably clever. The market knows very well that exchange controls will be removed, that the reality is they have to go and that the political decision has already been made. It also knows, or very firmly now

believes, that every time officials argue for a managed approach this is simply shorthand for an admission that they are genuinely scared about what may happen -- a vast exodus of funds and a bare reserves cupboard. That's what frightens the pants off them -- and the market knows it.

In these circumstances, interest rates do exactly what they should -- they rise, telling us how the market perceives this weakness in both fiscal and monetary determination. Repeated rumours -- Mandela's sick again, Stals is resigning -- simply spark (or result from) further falls in the currency. You would have thought that, by now, those in authority would understand the nature of the dilemma: it is that the market has seen through their combined fears. When will they understand that gradualism is enough? When we have a R7/$? It will be too late then. Better to take the step now and join the world. Interest rates will then give us the only cushion which will matter.

As things stand now, we have the worst of every combination. Interest rates rise but the currency keeps falling, because outsiders see the fear in the Treasury and conclude officials know something they don't. I have to admit that, when an American or European fund manager tells me that the real interest rate is attractive but the currency uncertainty drives them to anguish, I sympathise. Uncertainty is a sure-fire guarantee as an investment flattener.

When ladders become important

On an allied subject, I think it must now be clear to many that succession planning of a high order is an essential if one element of uncertainty is to be removed. Stals's own position of importance is such that an established, named successor has become a major issue. Manuel may prefer to keep his options open -- understandable enough -- but the critical issues are confidence and openness. This is the time for both.

THE ANC, POLICY UNCERTAINTY AND THE FINANCIAL MARKETS

It's time to save the rand

Anyone who believes anabolic steroids are beneficial to athletes may well think a tumbling currency is desirable. But those who understand the long-term consequences of a dose of synthetic hormones have a different perspective.

The truth is that there may be benign spinoffs from a one-off depreciation (see page 35) but a rand that loses value over an extended period erodes the wealth of the nation and undermines the foundations of the economy.

It's essential that some decisive move is made to halt the process. President Nelson Mandela has said he will do nothing. In the sense that there's no point in using reserves to shore up the rand, he's right. But he is wrong if he thinks government can fail in its crucial role of providing an environment in which growth can take place.

Uncertainty over economic policy is responsible for the plunge of more than 20% in the rand since mid-February. The rumoured resignation of the Minister of Finance, later confirmed by the event, focused fears about government's commitment to policy initiatives which had created a measure of investor confidence.

Firm monetary policy and increasing -- though insufficient -- fiscal discipline had reassured domestic and foreign investors that SA was entering a period of relative price stability. That is over for now. Much ground has already been lost by the rand's disarray and more will go.

This results from government's failure in two important areas:

- Elimination of exchange controls; and

- A hesitant approach to privatisation, which may leave SA out in the cold as other governments start privatising.

But one of the most disconcerting developments has been the ambivalence of ANC policy makers. There are many instances of this, but one of the most important has been the tendency of certain Ministers to ignore Budget constraints.

The Budget is the financial blueprint for the year. It is drafted by the Minister of Finance, in collaboration and consultation with people and parties in and outside parliament. It is then passed in parliament with the support of the ruling party.

But in at least one case, a profligate Minister got the President's backing.

There are often differences between the ANC in government and the ANC outside it. The former puts things in motion and the latter tries to derail it.

The latest evidence of internal dissension was the announcement -- and subsequent clarification -- of the ANC's support for Cosatu's strike threat (see Current Affairs). Even the clarification is disconcerting because it ends with the statement: "A decision within the ANC's structures has yet to be taken on whether the ANC fully backs the proposed strike."

The prospect of the ruling party supporting any action as counter-productive as a strike at this point is bad enough. Even worse is the party leadership's apparent failure to harness all the forces within the former liberation movement.

There's little point in Finance Minister Trevor Manuel taking his case to the world if folks back home continue to whittle away at whatever remaining confidence there is in government. It's really time for the ANC to demonstrate where it stands on economic policy.

COLLAPSING RAND

Market scepticism over economic welfarism

Over the past nine weeks, South Africans have lost nearly a quarter of their wealth as the rand has fallen to record lows against the US dollar. It is a situation so forbidding that it requires sober reflection. Ten years ago, there was a similar flight from the rand. It was much more serious then as investors all but abandoned their fixed capital assets -- their machines and factories -- for political reasons. SA's productive capacity contracted and many jobs were lost permanently.

Fortunately, local companies acquired some of the assets about to be abandoned at the time, thus mitigating the depressing economic impact of the flight. Today those SA companies stand accused of a corporate dominance that is said to be negating a vague concept called "transformation."

Simply put, that appears to mean the alienation of assets from supposedly unproductive white owners to new black owners, regardless of their ability to turn those assets to good purpose. The outcome is likely to be the triumph of political empowerment over economic utility. In the end it will simply mean less growth and fewer jobs

The flight from the rand these past few weeks reflects the sale of securities rather than fixed assets. The outcome is less serious now but, over the longer run, it will undoubtedly inhibit growth.

On both occasions, the flight was caused by a loss of confidence in government's political objectives.

In 1985 it was over the absence of reform in President P W Botha's Rubicon speech. This time, sparked by the resignation of an embattled finance minister, it's over what might be politely described as the Mandela government's economic ambivalence.

At both times the market - the collective albeit amorphous will of investors - demonstrated its unrelenting rejection of what parochial politicians like to regard as economic sovereignty.

Ten years ago, the market judged apartheid to have become economically destructive. It may have taken a long time to reach that view, but once it did the outcome was decisive.

These past few weeks the market has judged that the social aspirations of our first nonapartheid government -- however well intentioned they might be -- are beyond the productive capacity of the economy unless the tried and tested path to economic growth is embarked on.

It would be hard to identify, of course, the precise cause of the beginning of the rand's distress. But, certainly, indications of undue money supply growth and all that implies for fiscal discipline and inflation are likely to have influenced the build-up of speculative positions against the currency.

Perhaps if the Reserve Bank had paid more attention to monetary aggregates rather than interest rate levels, this fundamental indicator of the likelihood of government profligacy might have avoided a spotlight on broader government policy and the run on the rand might not have been ignited.

However, neither dismay over lax monetarism nor apprehension over President Nelson Mandela's health would have prompted such a rapid and relentless run against the rand had there not been fears among foreign investors of a more fundamental nature.

These were fanned by Finance Minister Trevor Manuel's contemptuous remarks about the market and the manifest comfort Mandela has given to a trade union movement that is short in numbers yet, paradoxically, long on political influence. Its strike threats and constitutional demands over the entrenchment of a lock out clause did not sit easily in a country that professes a desire to compete in world markets.

The attention being paid by the Mandela government to Cuba and Libya has probably helped to fan suspicion abroad that SA's declared commitment to fiscal discipline, stable prices, enterprise, growth and job creation lacks real conviction.

In recent weeks, government has failed, even to acknowledge some good sense in the SA Foundation's recommended growth policy and it has given at least passive

support to two other policy initiatives - from labour and black business. These are patently preoccupied with redistribution ahead of growth, soft options in economic policy ahead of serious priorities and job creation ahead of savings and investment without which the jobs would not be sustained.

When Mandela says the ANC will not turn its back on the unions, he is indicating clearly to the markets where his economic priorities lie and how fragile is his commitment to market-orientated policies. Patently, he's avoiding the hard economic choices that a commitment to market economics requires.

What is also clear is that he's avoiding a clash with the unions -- which is inevitable if their growing hegemony is to be curbed. The looming conflict is going to be much less between business and labour -- though that, too, will be real -- than between government and labour. Nor is the tripartite compromise of government, business and labour going to necessarily convince investors of anything but an awkward outcomeFor compromise seldom brings commitment. Government is going to have to show its colours with less ambivalence and greater determination if it is to convince investors of its commitment to policies which will bolster growth and create sustainable jobs.

The shot in the arm that the rand's recent collapse will give to manufactured exports will not outweigh the longer run inflationary implications of a softer currency. Once the speculative elements have been reduced, government will need to sustain the currency's recovery to by indicating that it takes market seriously and acknowledging that while it may have pretensions towards welfarism the more it moves in that direction the less will be its economic sovereignty. The only way some of that sovereignty may be regained is by government demonstrating its ability to uplift the poor through sensible policies that will sustain economic growth.

For the markets now -- as they did 10 years ago -- are indicating a profound scepticism that unsustainable political objectives (however well meant) are being allowed to obscure economic reality. In the mid-Eighties it was apartheid; today it's welfarism.

Clutching at straws or a real turnaround?

After the experience of the past few months, any sign of a respite is bound to be seized on with more than usual fervour. So it was with the slight rally in the bond and currency markets on Tuesday, which saw the rand back on the right side of US$/R4,40, though the key government bond, the R150, remained on the wrong side of 16%. After the heavy foreign selling of bonds in recent weeks, it was also reassuring to learn that -- despite a public holiday in the UK, the main conduit -- modest net foreign buying resumed on Monday.

But one swallow does not make a summer and it's significant that while bond yields eased on Tuesday, short-term rates continued to firm, with three-month NCDs up to 16,1%. The money market shortage, already high, grew another R800m+ on Monday to R9,4bn.

One reason is the drain of foreign currency imposed by recent Reserve Bank "intervention" (support would be a less mealy-mouthed term) in the foreign exchange market. We will never know the cost of this fruitless exercise but the latest foreign exchange reserve figures are due later this week and will give some idea of its scale.

It's ironic that a central banker like Chris Stals, who has so often -- and rightly -- explained to politicians that it's pointless to pour reserves into currency support when "the market" (for which, it's to be hoped, Trevor Manuel now has more respect, however amorphous he may still consider it) is against you, was driven to such straits.

Another notable feature of our recent experience is the radical change in the relative trend in long- and short-term rates (see graph on page 34). Simply, the market is telling us that the 1% rise in Bank rate was neither enough nor final.

It is already discounting a further 1% rise -- some would say, even more. Of course, the weak rand is bound to push up the inflation rate, and it is expectations, not history, that determine market prices; but real historic money market rates of almost 10% are quite remarkable and would be unusually high even on a pessimistic assessment of what could happen to inflation in the next 12 months.

The latest tendency seems to be to blame not the market as such but wicked speculators for the travails of the rand. This begs the question. Speculators are the market and speculators who try to buck the trend usually end up broke -- just ask the Hunt brothers how profitable it was in the long term cornering the silver market, at the wrong price.

Markets do not operate on sentiment but on how they perceive reality -- which is not to say that their perceptions are always right. Nevertheless, the sentiment now is clearly that the uncertainties attached to a commitment to SA are considerable and, if anything, increasing. Any benefits of a "Mandela factor" following the 1994 election have clearly passed away -- as was bound to happen at some stage.

It's also clear that we've missed the boat on a radical relaxation of exchange controls, even though it could be argued that the weakness of the currency minimises the risk of a huge outflow should the restrictions be lifted. There was never any great reason for confidence in the ANC's commitment to reform and Stals's belief that reform can happen only in times of relatively stable exchange rates will now be strengthened by the need to protect our dwindling reserves. None of this may be logical, but it's the way it is.

And now there's another uncertainty: the pending departure of Finance DG Estian Calitz, still aged under 50 despite a 19-year career in the public service. The announcement of his resignation reveals that he decided to go while Chris Liebenberg was still Minister of Finance.

His successor is still to be chosen. The hot money must be on the feisty Maria Ramos, who's already shown herself a civil servant of some stature but is inescapably another ANC representative.

In 1994 there was a tacit, if arrogant and naive, assumption that leaving the commanding heights of government finances in "establishment" hands would reassure investors (and others) at home and abroad and give continuity and stability. Barely two years later, the continuity -- other than Stals -- is destroyed. And we can all see what's happened to the stability.

Who's really king of the castle?

After his savaging at the hands of the "amorphous" market, you would think Finance Minister Trevor Manuel would have the sense to be silent for a while.

Not him. According to recent reports, he persists in believing the real underlying reason for the rand's disastrous slide lies with unscrupulous speculators (like George Soros?) who gang up on specific currencies from time to time. It is merely SA's turn to be mauled and mangled by these unpleasant people.

Manuel's refrain appears to be that, in the long run, there's nothing to worry about. The attack on the currency -- which has left us all immeasurably poorer -- has nothing whatsoever to do with the country's real problems. The constitutional impasse was never really a problem (even if it is resolved at the last minute). Neither is the civil war in KwaZulu-Natal, where the ANC has just decreed it has another month to prepare for an already long-overdue local government election.

The fact that business and labour cannot find one another while millions of unemployed are ignored doesn't count for much, either. Nor does our foreign policy hurt SA's image: it really is A-OK to be chums with the protectors of those accused of the Lockerbie carnage and to take tea with protagonists of terrorism.

Finally, the fact that our Finance Ministers make a virtue of their indecision on whether exchange controls will go or stay -- well, that doesn't count for much in the eyes of international investors, now does it? The fact that Cosatu wants the debate about exchange control removed from the agenda (in case the whites run away with the money) hasn't been noticed, has it?

If you believe these things don't count -- as Manuel appears to -- then you are entitled to be complacent. The truth is different, though.

What Manuel and his Cabinet colleagues conveniently forget is that this is the same amorphous market which battered and finally smashed the racist regime. This is the same market which did more than all the AK47s in southern Africa to bring the last government to its senses (knees) when it persisted in applying unacceptable policies.

But then, I should resign myself to the inevitable. Manuel's short-term mentors in his own ministry and the Reserve Bank are the same people who haven't learnt what it was that destroyed their previous political masters. They really believe markets can be manipulated by government fiat -- and that you can get away with intervention without fear of retaliation.

Margaret Thatcher may not be much loved but she gave back to Britain an economy which works and which, in the past few years, has been the only European country which has created -- not lost -- jobs. She is the same Prime Minister reported to have sharply told Treasury officials: "Never f . . . with the market."

Hello. Is anyone in Pretoria listening?

Going manual again

An extraordinary development is taking place in financial markets. The secondary gilts market has run screen-based trading for a decade and has always stayed ahead of its equity counterpart in areas such as dual capacity trading, transparency and avoiding any suggestion of a privileged club.

All of a sudden, though, equities have caught up. By end-June, they will have a fully automated screen-based trading system. Traders are saying this is the seventh heaven; liquidity has improved, trades are executed more effectively, the small investor gets a better deal because his orders can't be pushed aside in the queue.

Amazingly, in the light of this, the gilts boys are holding on to a floor-based market. Why is this? What can they see that no-one else can?

The major trading banks shouted loudly about the need to open markets, deregulate and become transparent. Well, now that they've shoved their way -- rightly -- into the equities market, why is this strange thing happening over in gilts?

De Klerk leads exodus from silken sinecures

Testing times ahead for NP

The precipitate departure of the National Party (NP) from the Government of National Unity (GNU) needs to be seen as part of a process of inexorable logic. The timing might have shocked some -- a day after the passage of the new Constitution -- but the strains within government, and within the NP, were becoming unendurable.

That does not mean that what has occurred is necessarily a good thing.

NP secretary-general Roelf Meyer has complained that the majority ANC had decreasingly been taking account of NP views in policy-making and key appointments. He, for one, would have preferred the appointment of a figure of some eminence in the private sector to the key Ministry of Finance rather than Trevor Manuel.

Another source of internal conflict for the NP was that, as Meyer has admitted, after 46 years of draconian rule it "simply didn't know how to fulfil the role of an opposition party." (See Current Affairs May 10.)

Voices within the NP caucus were being raised that the party was being too accommodating to the ANC -- against which it fought a brutal war for decades. On the one hand, this constrained it in implementing its vision of becoming a true, and expanding, opposition. On the other, it was charged with drifting away from its roots.

The NP's participation in the GNU -- which at one stage in the constitutional negotiations it fought to extend beyond 1999 -- was in any case limited by the time frame of the interim constitution. The enforced coalition -- originally perceived as a strategy for stability and survival -- led to what might politely be called a dampening of spirits within the NP caucus.

Though there remain three years to the next election, the NP now has the self-appointed authority to engage in vigorous debate and questioning of policy that it forfeited by participation, and to consolidate both its vision and its membership.

The decision to participate was originally taken at the Kempton Park negotiations and was seen as a mechanism for defusing the escalating violence in the run-up to the 1994 general election. At the 11th hour, the Inkatha Freedom Party and the Freedom Front were brought into the election process, and that helped calm the national mood.

But now it is the future, and not the smoothness of the transition, that concerns the markets. The other side of the NP's defection is that the ANC must show it can rule alone. It must in particular maintain fiscal discipline and enact policies that lead to sustainable growth that can, in turn, fund the welfarist commitments in the Bill of Rights in a noninflationary manner.

Last Thursday, when President Nelson Mandela addressed the media on the NP walk-out, he symbolically stressed continuity of political leadership and effective economic management by being flanked by Deputy President Thabo Mbeki and Finance Minister Manuel.

"The policies that the GNU has been executing are premised on the needs and aspirations of all the country's peoples," he said. "This applies to all areas of endeavour . . . to improve the quality of life of the people through sound economic policies of fiscal discipline and other measures to promote growth and development."

Within days, he announced the new Cabinet appointments to replace the self-immolating Nationalists.

Valli Moosa will take over from Chris Fismer at Provincial Affairs & Constitutional Development; Patrick McKenzie will leave Welfare to Geraldine Fraser-Moleketi; Derek Hanekom -- in a welcome, but perhaps, for white farmers, controversial rationalisation -- will add Agriculture to his Land Affairs portfolio; Penuell Maduna takes on Mineral & Energy from the veteran Pik Botha; and Pallo Jordan returns as Minister of Environmental Affairs & Tourism.

Most of these faces are familiar, but suggest that Mandela and the ANC will increasingly affirm their dominance. So while the announcements were made with commendable speed -- so that the markets would not be further ruffled by

uncertainty -- the market-makers will continue to fear populist public spending and excessive interference in the workings of the private sector.

Mandela was not bitter at the walk-out. He sincerely thanked NP leader F W de Klerk for his "constructive role" in the GNU. De Klerk had carried his full weight in the Cabinet. So it was not a question of parting on evil terms, allowing the ANC to raid the Treasury for its social aims, but rather an indication of SA's political maturity.

Is this reading a fair one?

When he addressed the Constitutional Assembly on adoption day last week, De Klerk made his reservations over the Constitution sound peevish. It was obviously a difficult speech to make and he was, understandably, tired.

There can be little doubt that, while he had been considering withdrawal for some time -- and Mandela said the NP leader had on occasion raised the matter with him -- De Klerk drew a firm line at voting against the Constitution, as, at one stage, the majority of his caucus is reported to have wanted him to do.

The failure of the Constitution to pass, coupled with a walk-out, would have sent the rand plummeting and exposed the Nationalists to valid criticism that they had turned wreckers because they didn't get what they wanted -- on a day when even Constand Viljoen sounded enthusiastic about the Bill (though he abstained from voting for it).

The Constitution, as the FM pointed out last week (Leading Articles May 10), will work to the extent that South Africans make it work. It has yet to be certified by the Constitutional Court -- and there will be challenges on the controversial property, education and lock-out clauses. Thereafter, as importantly, the liberal ethos that permeates the text must become accepted and respected, and not misused as a political battlefield.

It is going to be a document subject to endless interpretations and amendment.

To take but one example: in the "freedom and security of the person" clause, "everyone has the right to bodily and psychological integrity, which includes the right to make decisions concerning reproduction."

SA has an abortion law which is to be brought into greater congruence with contemporary reality, but the constitutional right to "decisions concerning reproduction" is certain to evoke nationwide debate on the "abortion on demand" issue -- an ethical flashpoint, whichever side you happen to be on.

Among the NP's core values is that it is against abortion, just as it is for the death penalty. Broadly speaking, the party -- particularly if it can shed its paleface image carried over from the apartheid days -- might well find new followers among South Africans more socially conservative than the ANC. It intends to try.

However, a major problem for the NP is its dearth of leadership. There's no doubt that De Klerk -- widely respected for his historic decision to break with the past -- is a charismatic figure. But he can also at times sound petulant.

Meyer is a consummate negotiator, but not one at ease in the public spotlight. Again, Meyer is constrained by the fact that he was the NP's key negotiator in the final hours that saw the NP take less than it gave the ANC on the Constitution.

With Leon Wessels leaving politics and Danie Schutte concentrating on Natal, a reformulated NP -- whether or not it changes its name -- is going to have to advance like-minded blacks through its ranks rapidly if it's to have an impact on the majority and more especially so if the ANC jettisons fiscal discipline by way of a spurious quick-fix for the faltering economy.

This is not in prospect at the moment; and given the NP's contribution to economic policy as it stands, renewed calls by De Klerk for privatisation, abolition of exchange controls, freer markets and the like, will simply draw the riposte from government that all these policies have been accepted already, if only in principle.

But that is only for the moment.

With the effective termination of the GNU at midnight on June 30, the pressure will really be on for the ANC to deliver on promises. And then, as political analyst Lawrence Schlemmer puts it: "We will lose investor confidence, not because they don't like the ANC but simply because they know the government's policies will now become more liberated and less consistent."

As for the NP's waning role in the GNU, Schlemmer said it had made "concessions which its supporters have perceived to have undermined their interests. The party itself has weakened in the process." The result was a "net loss in political currency."

Should the NP be able to recast itself as a tough opposition, clear-cut on the issues, it would benefit from the ANC's failure to deliver -- should this problem prove intractable, as it well may. It could well have been in the collective mind of the NP that continued participation in the GNU would further damage it if there were repeated failures in delivery.

But perhaps this is looking a little too far ahead. Democratic Party leader Tony Leon could be more accurate in his prediction that the NP "has played its last card from a very weak hand. Its move was necessitated by deep and searing divisions within the NP caucus over its support for the Constitution. This deeply divided (party) has received a temporary dressing for the wounds which divide it, but this is no more than a superficial solution for a party in deep, if not terminal, crisis."

The Freedom Front took a similar view: "As masters of their own misfortune, the NP leadership has sentenced itself now to life imprisonment in a system, which they helped create, wherein they will always remain a minority opposition party . . . We view this as an attempt to reposition the NP with an eye on the Western Cape election and the 1999 general election, allowing petty party politics to override national interests."

The May 29 rural and metropolitan elections in the Western Cape -- fiefdom of Hernus Kriel, who has long wanted to see the NP out of the GNU -- will not necessarily show which way the winds are blowing for the NP. The NP is in power in the provincial legislature, thanks to the coloured vote.

Because of this fact, the region is not politically comparable with other provinces. Nonetheless, any swing away from the Nationalists -- with gains for the ANC -- would not be a good augury for the party's national performance in 1999. It would have to so radically alter its image to gain the mass acceptance it craves that it will cease to be the party it is now, in post-reform disarray.

On balance, therefore, though the NP has shown itself brave enough to forfeit the powers and privilege of executive office, it's risking the political wilderness. It has also forfeited any restraining influence it could claim to wield within the GNU.

Should the ANC -- as Schlemmer has warned -- take this as an opportunity to break loose and engage in spendthrift social engineering, the impact of the NP walk-out will be almost wholly negative. The centre, in short, may not hold -- and we could be back to damaging ethnic rivalries.

RISING INTEREST RATES AND SCAPEGOATS

Blame where it's due

The banks' decision to pre-empt a rise in Bank rate is not a ploy on their part to discomfit Cosatu or embarrass the Minister of Finance. And they are not about to make a killing because they have raised prime and mortgage rates another percentage point to 20,5% and 20,25% respectively.

Not that they would hesitate to boost profits if they could. But their cost of funding has risen sharply since February when the forex outflows, reflected in the falling rand, started draining money from the market.

The Competition Board will find that, as banks all fund themselves in the same market, the simultaneous move is not the product of collusion. Banks were simply responding to the same market forces (see graphs).

"Each bank has its own basket of funding rates," says Standard treasury director John Lloyd, "which includes the call rate. But the closest to a benchmark is probably the rate on a three-month certificate of deposit, which has risen about 2,5 percentage points since February."

Call rate has risen about 2,5 percentage points over the period, as have other market rates.

Reserve Bank Governor Chris Stals says he will follow the banks and put up the rate at which he lends to the banking sector if the Treasury bill rate rises further this Friday, from 16,21% last Friday. This is because a Treasury bill rate higher than the 16% Bank rate cannot be sustained (see page 40).

Other rates were drifting uneasily at the start of the week. On Monday, the bond market brightened as US Treasury rates fell. But, early on Tuesday, the rate on the benchmark long bond -- the R150 -- rose 11 points from Monday's close to 16,2%. The benchmark short rate, on bankers' acceptances, was quoted at 16,5%, down from 16,55%.

The money market shortage on Monday was almost unchanged at R8,3bn, from Saturday's R8,6bn.

The rand was R4,33 to the US dollar at noon, from R4,30 on Monday.

On the JSE, the Industrial index was down to 7 715 at noon, from 7 723,9, despite a strong performance on Wall Street on Monday.

The last thing that is needed at this point is Cosatu's prescribed asset proposals (see page 40).

To his credit, Finance Minister Trevor Manuel has not attempted to coerce banks into reversing their move. He has asked only to be informed ahead of any future decisions on movements in key rates.

Fortunately, many key players in government realise that if financial markets are smothered, a country loses its most valuable source of information about the direction in which the economy is headed. Though the government has made no move to interfere, it has also shown little sign of heeding the message coming over so clearly -- without foreign investment, the road ahead is rocky.

A configuration of events has caused foreign investors to abruptly change their perceptions of the relationship between risk and reward in SA. As they acted on their new impulses, the rand's value fell and huge shortages appeared in the money market.

We have relearnt what we knew all along -- that people with short-term funds in portfolios are easily swayed. If SA is to have a stable financial environment and expand its potential to create jobs, it will have to attract foreign direct investment -- in property, plant and machinery rather than financial securities.

Government knows what foreign investors require above anything else -- certainty. And only government can create that crucial element in the economic environment.

Rand reflects perceptions

Sipping my $4 (R18) beer in a nondescript bar at a US airport gave me reason to think of the rand. Having just endured the raving of a high-yield bond fund manager, who bought rand bonds in December and sold them just before the rand's dive, fuelled my thought.

It encouraged me to try to reach Reserve Bank Governor Chris Stals to plead with him not to raise the Bank rate. I wanted to tell him it would not help the rand if the perceptions of this bond trader were representative.

Raising rates would punish SA consumers and do nothing for the rand, which is bobbing around in its own unpredictable sea of sentiment. Consumers do not deserve this and might resist to the point of undermining the status of the Reserve Bank. Of course, I couldn't reach him and, understandably, he didn't call back.

The consequences of the rand's collapse are clear enough: high real interest rates and no chance for fiscal policy over the next year. The devaluation has ensured households will consume much less this year and next than they would have. At $/R4,15, simulations show consumption spending might have grown about 5% in real terms in 1996. Prices would have been about 7% higher.

An exchange rate of $/R4,57 by year-end will push inflation to about 10,5% and consumption spending will grow at only half the rate. Business will achieve higher volumes and prices for exports -- though import costs will soar. Earning more because of the weaker currency, business will save and invest more. Growth and employment will be boosted as the trade balance improves.

The current account deficit and capital inflows will decline. South Africans will prove they can do without some of the capital so abruptly withdrawn.

At the current exchange rate, SA is a highly competitive supplier. Whatever output the local market rejects will be sold, easily and profitably, elsewhere.

When that happens, fund managers will buy again. The rand will strengthen. Consumers will regain some lost ground as profit margins are squeezed and managers and workers are able to take a bigger share of GDP.

The sacrifices by households should not have been necessary. Fiscal policy was on a more disciplined track with some probability of government reducing its consumption spending. Monetary policy, measured by real interest rates, was strict and should have supported capital inflows.

The strong growth in demand for credit and supply of money, despite the high cost of borrowing, testified to consumers' and companies' confidence in the new SA.

Fundamentals were good and had not changed in the first quarter of 1996. It was not too much to expect capital inflows of 3% as we run a current account deficit -- especially if most of the capital helps finance private investment.

It was the failure to effectively communicate these realities that turned what should have been a well understood and essentially helpful softening of the rand into an abject rout.

The rand's weakness can be attributed to sales of rand bonds by professional fund managers. By end-April, the main players seemed to have sold off their nearly R13bn purchases made in the previous 12 months. Between end-January and May 10, the gap between RSAs and US 30-year Treasuries widened from 7,6% to 9,4%.

Managers of foreign equity funds, by contrast, remained consistent net buyers of our stock.

The initial selloff occurred when long bond yields in the US and Germany kicked up in mid-February. The rand fed successful high-yield bond plays but this ended when rates rose. Concerns about President Nelson Mandela's health were a consequence, not a cause, of bond market adjustments.

But weakness led to collapse as first Stals, then hastily appointed Finance Minister Trevor Manuel sent signals which the market read as weakness. Perceptions of weakness overrode the reality of economic strength.

It is bad news to hear from a central banker that his currency is overvalued. This encourages sellers and discourages buyers. In the short run, a currency depends for its value on capital rather than trade flows. A central bank can always buy foreign currency to prevent its own overvaluing. It can do little to halt a slide without huge reserves. Perhaps the Reserve Bank bought too few dollars when it had the chance to prevent the rand strengthening in a real way and so became vulnerable to a change in sentiment.

The prospect of exchange control reform was another uncertainty that no reassurances from Bank governors and Finance Ministers could remove. It is still not clear whether sentiment would improve if controls were removed or postponed. It seems that removing exchange control is something you should just do -- not something you promise to do or not to do. The promises have become a problem.

Most damaging of all to the currency and the consumer were Manuel's presumably off-the-cuff remarks about the nature of markets. "Off the wall" is one of the kinder descriptions. They're meaningless and perhaps harmless in ordinary circumstances. In a world where perceptions, especially of competence in economic leadership, can be everything, the remarks were more than enough to turn "hold" into "sell."

An astute politician, Manuel has more potential to command fiscal discipline from his Cabinet colleagues than his caretaker predecessors had. He should prove a successful Minister of Finance. However, until he understands the markets relied on by ordinary South Africans who suffer for his indiscretions, let him do his job with actions rather than words.

Struggle for the ANC's ideological soul

Adversaries clash on State's role

Sam Shilowa's recent lashing out against big business in general and the idea of privatisation in particular obscures the real target ***and*** purpose of his attacks.

The Cosatu chief's combative, high-profile pronouncements are, paradoxically, aimed not so much at business, the union's traditional enemies, as they are at the top echelons of the ANC -- over the content and direction of government's economic blueprint, to be unveiled by Deputy President Thabo Mbeki soon.

With the Constitution basically out of the way, explains an ANC MP, the next big question (aside from the violence of KwaZulu-Natal) facing the ANC and its alliance partners, Cosatu and the SA Communist Party (SACP), centres on the economy.

In simple terms, the question is whether the strategy for economic growth to be adopted by the ANC in government should follow an essentially free-enterprise, capitalist route or be more in line with the movement's traditional, but lapsed, adherence to socialism.

A more nuanced version is that the battle is about the role of the State in the economy, with three tendencies in the alliance contending for supremacy: the first favours a strongly interventionist State; the second, though also that way inclined, has come to accept that "the markets" will react adversely if State intervention is the policy; the third argues that the world has changed and with it the role of the State.

Hence the third bloc, which is in the ascendancy, accepts that there cannot be -- to cite a key example -- State-run telecommunications, operating exclusively within national boundaries, and that forming joint ventures, at least, is inevitable, since it would be hard to buck the world trend.

In practice, one may cast the divide in the ideological struggle for the soul of the ANC into "centrists" versus socialists, with, broadly speaking, Cosatu and the SACP in the latter camp because of their formal commitment to a socialist future.

But these labels tend to be misleading because pragmatists and socialists are in all three components of the triple alliance.

Communists may well find themselves emphasising different and even opposing points in the debate.

Trade & Industry Minister Alec Erwin is more likely to find himself in agreement with Mbeki -- leader of the ANC's centre -- than Shilowa, though Erwin and Shilowa are both members of the SACP. Erwin has been criticised by his comrades for -- in the words of one of the party faithful -- "singing the same song as the bourgeoisie in parliament."

Shilowa, by contrast, is more likely to find himself on the same side as ANC luminary Pallo Jordan, who is not a member of the SACP. Jordan is reported to have described Mbeki's Growth & Development Strategy -- which includes a sizeable privatisation component -- as Thatcherite.

Shilowa, speaking for the camp favouring a prominent role for the State in the economy, rammed home his opposition to privatisation in his address to the World Economic Forum conference in Cape Town recently: "We view privatisation as one of the major threats to the vision of a better life for all . . .

"Cosatu is not naive to the fact that the call for privatisation forms part of an international trend to reduce the role of governments in their economies. It is our view that much of the impetus for this trend is as a result of the desire of multinational competitors to expand their markets and increase their profit margins."

The outcome of the debate inside the ANC will, as one leftwing MP describes the battle, "determine the contours of our politics for years to come."

The apparent intensity of the debate is reflected in recent reports, quickly shot down by the ANC, which suggested major differences of opinion had been aired within the ANC's national executive committee over Mbeki's economic strategy document, as a result of which it failed to be adopted at that stage. important casualty of the debate, which has been going on for a while, was the decision to close the RDP office. This was a blow to the Left, which believes that the RDP does contain the correct

economic vision and strategy. The Left feels, furthermore, that economic policy making should be driven more from "below", that is, by structures lower down in the alliance.

However, the centrists -- Mbeki, Finance Minister Trevor Manuel and his deputy Gill Marcus, Labour's Tito Mboweni and Trade & Industry's Alec Erwin (who remains a member of the SACP) -- have in effect won the debate. Which means that privatisation -- or the restructuring of State assets, as the unions prefer to call it -- will be pursued. It is only a question now of bringing along the more unreconstructed elements in the alliance, which the ANC is determined to preserve, despite the inevitable strains attendant upon a leftwing party once it gets into government.

Certainly, the National Framework Agreement on the restructuring of certain State assets signed between organised labour, including Cosatu, and Public Enterprises Minister Stella Sigcau back in January, suggested that privatisation, by whatever name, was on the cards.

Shilowa's fighting talk is a case of bargaining for position, sending a loaded message to the ANC, as leader of the alliance, to take account of the interests of organised labour and not to acquiesce entirely in pro-capitalist policies.

Nelson Mandela's unequivocal declamation that privatisation is the "fundamental policy of the ANC" has rekindled controversy over SA's economic policy. But at times the debate seems resemble a cacophony rather than a clash between adversaries championing distinct but opposing views.

The reason for the discordance is that more than one debate is taking place simultaneously. At one level there is the usual ideological dispute between capital and labour, big business and trade unions; at another, in many ways deeper level, there is a squabble within the ANC-led tripartite alliance.

Cosatu has asked for a "high level meeting of the alliance" to resolve the debate within its ranks. The next sentence in its statement is particularly significant: "Our call to business is to stay out of the fray lest they complicate the issue."

The Cosatu statement, issued late last month after Mandela's pro-privatisation declaration, amounts to an admission that the primary dispute over privatisation is within the alliance rather than between the trade union movement and big business. Cosatu leaders, naturally, have done their best to prevent diverging emphases within the ANC-led alliance from becoming a public quarrel. As Shilowa puts it, the trade union federation is determined "not to allow the reactionary forces to push us into a slanging match with (Mandela or) the ANC."

The dismay in Cosatu over Mandela's unqualified advocacy of privatisation after his three-day visit to Germany has been directed against a substitute target: big business, with the commercial banks being accused of colluding in the latest rise in interest rates and of "privatising monetary policy" and Old Mutual being attacked for its support of the SA Foundation and its "reactionary" economic blueprint, Growth for All.

If differences within the ANC-led alliance are of direct relevance to the controversy over privatisation and, beyond that, over economic policy more generally, Discord in the tripartite alliance is complex and inexplicable in terms of simple generalisations and dichotomies. The dispute cannot be encapsulated in neat either-or formulae: capitalists versus communists, pro- versus anti-privatisation schools.

Cosatu still espouses nationalisation as its official policy. There is a need, however, to go beyond slogans, even when these have been given the imprimatur of approval by majority resolutions at policy-making congresses. Though Cosatu has formally pinned its colours to a nationalisation mast, it is also a signatory to the National Framework Agreement of January 25, an agreement which specifically allows for a degree of privatisation under the label "restructuring of State assets."

The agreement is a product of negotiations within the tripartite alliance after Mbeki's privatisation announcement last December and the vigorous protest which it drew from Cosatu.

Mbeki's announcement envisaged two parallel develolpments:

 The formation of partnerships with private corporations in state-controlled industries in telecommunications (Telkom) and transport (SA Airways and the Airports Company).

 The outright sale to private companies of Sun Air, Transkei Airways and Autonet.

The agreement attempts to strike a balance between the conflicting demands for continued State control and the need for "restructuring of State assets" -- a term which Cosatu prefers to privatisation -- to allow partnerships with, and sales to, private corporations. It is neither a charter for wholesale privatisation nor an implacable bulwark against it.

The debate within the ANC alliance is not over whether there should be restructuring of State assets; rather it is over what assets should be restructured, how and when they should be restructured and what safeguards should be built in to protect public-sector workers against retrenchments by private-sector entrepreneurs.

Mandela's statement lauding privatisation as ANC policy has, unsurprisingly, provoked consternation in Cosatu ranks. It appears to negate the compromises and guarantees contained in the National Framework Agreement and to open the door to immediate and extensive privatisation.

Any doubt on this score was surely removed by President Nelson Mandela's unequivocal affirmation, both to German investors in Bonn and on his return to SA on May 24, that "privatisation is the fundamental policy of the ANC and it will be implemented."

Some observers believe Mandela was "shooting from the hip." Not quite: Mandela said so twice in Germany and again after Shilowa's widely reported anti-privatisation remarks at the World Economic Forum's conference in Cape Town. So, for all his clouding the picture earlier, by having backed Cosatu's right to strike over the issue in December, Mandela has come out strongly and deliberately in favour of privatisation. His statements have intensified the ideological wrangle with the alliance.

The debate over privatisation obscures another issue: the dispute over the best route to black empowerment. An increasingly powerful lobby in the ANC favours a capitalist route. The decision of ANC secretary-general Cyril Ramaphosa to quit the political arena to become the deputy chairman of Nthato Motlana's New Africa Investments Limited symbolises the growing strength of the capitalist voice. Ramaphosa's role as the champion of mineworkers in the Eighties -- he was secretary-general of the National Union of Mineworkers -- underlines the changing perspectives of ANC leaders with once impeccably leftwing credentials.

But there are countervailing fears that the capitalist route will merely empower a few blacks and enrich those who are already rich.

There are grave concerns in Cosatu and in the ANC-SACP that privatisation will scupper the vision of providing fundamental services -- water, electricity, sewerage -- to the poor and the disadvantaged victims of apartheid.

To quote from a Cosatu press statement issued after Mbeki's December statement: "The goals of the Reconstruction & Development Programme will be defeated if restructuring . . . benefits a new black elite while the delivery of services is fundamentally undermined." Those suspicions are, if anything, even stronger now. The extent of suspicion in Cosatu is reflected in a threat to "deal with those sharks who are attempting to colonise public assets as their private property."

If the tone of Cosatu and the radical wing of the ANC is often shrill, it is a reflection of despair within their ranks that the balance of power is moving inexorably in favour of centrists in the alliance, who are pressing for a more rapid and extensive privatisation. Many big names in the ANC are associated with the centrists: Mbeki, Erwin, Finance Minister Trevor Manuel, Deputy Finance Minister Gill Marcus and Labour Minister Tito Mboweni.

Another factor is responsible for the strident cries of protest from Shilowa (and, behind him, Cosatu parliamentary officer Neil Coleman): awareness that the union movement is shedding members and losing strength. Trade union fundi Jeremy Baskin notes in the February issue of Labour Bulletin: "Overall membership growth has slowed since the early Nineties and membership in the last two years has

declined by about 6%. Total union membership, which stood at nearly 3,3m in 1993, has since declined to just over 3m.

But linked to what Baskin describes as "a manifest decline in union power" is another, and in some respects, opposing development: the growth in the membership and power of the public-sector unions, those unions whose members believe they are most threatened by privatisation plans.

Thus Shilowa and his lieutenants in Cosatu are under pressure from two directions to slow down and, where possible, divert the movement towards privatisation. The strain of doing so shows in their increasingly militant actions, manifest dramatically by the demonstration outside Parliament against the inclusion of the right to lock out in the new constitution.

It would, however, be a mistake to dismiss Cosatu's protests as the rumblings of a force being pushed steadily to the sidelines by ineluctable socio-economic forces. Cosatu still has enough power to wreak havoc. Its relative weakness compared with three years ago introduces an element of despair in its actions and makes it more, not less, dangerous.

Manuel prescribes cautious Thatcherism

Manuel on the cover, caption is off to work we go

Time for bold decisions imminent

Government's new economic policy, so long in gestation and short in revelation, is a necessary condition to attain the levels of growth and job creation needed by the turn of the century. But it is not a sufficient condition to do the trick.

Nor is it likely in the short run to reverse the decline of the rand and persuade foreign investors to forsake all else and rush to invest. Expectations abroad were too extreme -- either for disastrous recidivism or radical convention -- for new Finance Minister Trevor Manuel's cautious Thatcherism to invoke a rapid response.

Now, of course, Thatcherism is a pejorative term in the ANC lexicon, where it means an absence of caring rather than, more accurately, empowerment through self-sufficiency.

The importance of this new plan is that it provides a medium-term economic strategy that is based on economic reality, market logic and experience elsewhere. It is not a nebulous expression of social intent and public works (the essence of the Reconstruction & Development Programme) that can be manipulated by trades union leaders to their own purpose.

Indeed, there is not, at least from its initial expression, much for the comfort of Cosatu and its boss, Sam Shilowa, in the Manuel plan. Except that Shilowa's old mother is more likely to get her telephone now than under the initiative that Cosatu tried to pass off as a coherent economic blueprint.

Manuel emphasises that the parameters of his plan were not up for negotiation. That was a clear warning to Cosatu to back off and a blow to Nedlac, the forum in which government, labour and business are intended to find common purpose. It is not to be allowed to intrude into parliamentary sovereignty, except in so far as labour matters are concerned.

The two key -- and controversial issues -- that are needed to underpin Manuel's plan are privatisation and labour market flexibility. On both issues, he shuffled his feet. It's hoped clarity will follow soon from the Ministers concerned, one of whom, Labour Minister Tito Mboweni, is to present a Labour Market Commission Report this week.

But appendix 13 of Manuel's plan does state categorically that "the collective bargaining system will need to strike an appropriate balance between regulating job security . . . while regulating labour market flexibility, especially at the lower end of wage distribution."

The glaring deficiency, as far as foreign investment is concerned, is the absence of any coherence on privatisation or asset restructuring.

In parliament, Manuel spoke about a Protocol on Corporate Governance, whatever that might be, but he did say that government "would exercise its rights as a shareholder in respect of the vast number of public corporations that exist." If that means he plans to sell them off, he should say so. This ambiguity was partly addressed in one of the appendices which says that restructuring would "create opportunities for equity investment in public corporations by foreign partners."

Nevertheless, the impression remains that government is still more concerned with appeasing organised labour than encouraging foreign investment, even though it acknowledges its growth and job objectives will not be met without the investment.

The other disappointment to foreign investors will be government's failure to finally abolish exchange controls, a move that will have to be co-ordinated prudentially with privatisation to avoid too great a stress on the reserves.

Local institutions may double the amounts they are able to swap for foreign assets and the local borrowing restraints on foreign companies have been relaxed substantially. This is better than nothing. But the gradual removal of exchange controls could accelerate the rand's depreciation.

It is significant, too, that though monetary and fiscal disciplines are to be tightened gradually, there still appears to be a radical policy towards the implementation of welfare schemes, especially in education and health.

The Minister and the accompanying documentation talk of reviewing spending priorities. But the meaning is not clear. If it means forcing Education and Health Ministers to spend with greater precision, the anomaly of what appears to be gradual fiscal disciplines being negated by frisky welfare spending will disappear.

The key to the whole integrated package of economic measures is the application and mainte- nance of fiscal disciplines. Manuel acknowledges that a deficiency here has placed too great a burden on monetary disciplines and this, in turn, has led to high debt and servicing costs and necessitated interest rates so high that growth is being prejudiced. Debt servicing will constitute the highest portion of the national Budget in the coming year.

The objectives are too modest. The deficit before borrowing is to be reduced over the next four years from an expected 5% this year to 3% by the end of the century. But that does not necessarily mean that these objectives will be met, especially if the Cabinet is divided over spending priorities.

The supply-side measures, in the form of quicker depreciation for certain new investors and tax holidays for others will undoubtedly have an appeal. They are analysed in greater depth elsewhere in this edition.

But they, too, have about them the air of compromise and could be said to lack real conviction. Indeed, the new plan is devoid of any statement of taxation principles. These allowances or other, similar ones were only recently abolished as part of general tax reform. For, by their nature, this type of tax relief emphasises that our overall taxes are too high.

This govenment found itself circumscribed in its last Budget by the unions' opposition to an increase in value added tax when the economic case for an increase was beyond dispute.

By avoiding the issue now, it suggests that the unions' intimidation remains a constraint on tax reforms that would enhance the growth and job objectives of the new policy.

Other measures, such as the support for small business, the strengthening of competition policy, more investment in infrastructure and the continuation of tariff reductions are all worthwhile objectives. None, however, is as important as the financial disciplines, privatisation, the abolition of exchange controls and labour market flexibility.

Most investors will find the general thrust of the policy and the economic principles it enshrines salutary. They needed to be set out with reasonable clarity and conviction and that Manuel has done.

It is a pity Reserve Bank Governor Chris Stals was not present to endorse Manuel's presentation. For his international credibility is substantial.

The test now is going to be implementation, especially of privatisation, if foreign investment is to return. The new leadership does not have a record of swift policy execution.

Government has been seen to procrastinate and waver in the face of opposition from labour. When it gets down to the details of this policy, those conflicts will return. It will have to show it is made of sterner stuff than in the past if it is to maintain the parameters it insists are not negotiable.

The present policy document goes some way in that direction. For the whole thrust of the communication of this policy is clearly directed not at new investors (they come second) but at organised labour.

It indicates that the centre of the ANC, under Deputy President Thabo Mbeki's wing, has held in the face of Cosatu's recent onslaught. That in itself is a development that should not be underestimated in an assessment of the chances of successful application.

The next signal to be watched is the labour report due this week. If it reveals a trend towards higher minimum wages and other elements that constrict labour mobility, foreign investors will not give Manuel's policy the benefit of a second run.

The success of the new economic policy also depends on the application of broader social policies such as a reduction in crime and political murder. That, in turn, suggests the Cabinet needs to be seen in uniform support of what Manuel has proposed.

Foreign investors are -- perhaps surprisingly, to labour leaders -- aware of the rent boycotts that bedevil local government, the inability of tax authorities to collect taxes and of customs officials to police the ports. Some success in the measures taken to overcome these problems needs to be seen.

We have dwelt on our reservations about parts of the new policy. They represent issues which, if addressed, would make the policy more effective and certain of success.

We are not unmindful of the political difficulties of implementation. But we do know that the greater the delay, the greater those difficulties will become. It would be wise for Manuel to get down to work quickly.

LABOUR MARKET REFORM

Flexibility the watchword

Minimum wages were uppermost in the minds of labour, business and prospective overseas investors awaiting Labour Minister Tito Mboweni's crucial labour policy reform proposals this week.

The report of the Comprehensive Labour Market Commission, chaired by David Lewis, is the product of a year-long investigation into all aspects of SA labour market institutions and legislation.

It comes hot on the heels of Finance Minister Trevor Manuel's groundbreaking macro-economic strategy -- Growth, Employment & Redistribution -- unveiled last Friday.

Business sees Manuel's "non-negotiable" strategy as raising an unambiguous banner for more flexibility in the economy. To this end, Manuel outlined various tax and trade incentives (see Leading Articles) and ruled out a national minimum wage -- though he did provide for decentralised wage-setting.

However, as business observes, the most difficult nut to crack in the quest for more efficient markets will be deregulation of the labour market. That will influence largely the extent of foreign investment, as foreigners are repelled by nationally prescribed wages.

The unions, led by Cosatu, have already nailed their colours to the mast, as evidenced by their outrage at the "two-tier" labour market proposed in the SA Foundation's Growth for All document, which Mboweni also felt was a nonstarter.

But Manuel's package of reforms, with their emphasis on flexibility, has set a benchmark by which labour market reforms will be judged and debated.

"There would be no logic in calling, for instance, for a 40-hour week," says an industry source, referring to new employment standards legislation being discussed in the National Economic, Development and Labour Council.

"I suspect that Manuel's speech put down certain markers which are likely to find resonance in the report on the labour market," says another spokesman for organised business.

Substantive amendments to the Labour Relations Act, now before parliament, may be aimed at injecting more flexibility to collective bargaining. In particular, it's hoped that Mboweni's concept of "regulated flexibility" will be given a more concrete definition.

Business will also be expecting greater leeway for the Minister to grant small or new companies exemptions from industrial council wage determinations.

It would indeed be surprising -- and undermine the new macro-economic strategy -- if the labour market commission's report were to depart from the spirit and thrust of the package announced by Manuel.

PRIVATISATION

Choosing the banker

Government's privatisation plans are back on track after labour jettisoned the process six months ago.

Three investment banks, all with substantial international ties, have been shortlisted to oversee the privatisation process for government. They are: Fleming Martin, Lehman Brothers and CS First Boston.

Fleming Martin, a Gauteng-based investment house with strong UK ties, is the leader in the overall ranking of firms in the FM's ratings of stockbroker research. It refused to comment, as did CS First Boston.

SBC Warburg, the investment banking arm of Swiss Bank, confirmed that it had been on the shortlist but would not comment further.

Some banks which were invited to tender withdrew their candidature after government made it clear that the appointee would not qualify for any other government work for the duration of the contract, which may take longer than a year.

The successful candidate, which will be responsible for drafting a final model to guide the privatisation process, will be announced on Friday.

In parliament last week, Public Enterprises Minister Stella Sigcau stressed that privatisation was not ideologically driven but "a pragmatic economic imperative" (see Economy).

Privatisation was necessary to attract international firms with the management and technical expertise, credit standing and financial muscle to help fund infrastructural expenditure of R173bn over the next five years.

Finance Minister Trevor Manuel says government is also relying on privatisation for about R5bn-R6bn a year by the turn of the century and on the dividend payments of public corporations to help reduce the borrowing requirement.

Sigcau has pledged to move towards the full and partial privatisation of State assets before the end of the financial year. However, labour will have to be consulted at every turn in what Sigcau admits is destined to be a "protracted and carefully considered process."

The public enterprises under review employ more than 300 000 workers, many unskilled. The extent of labour's sensitivity is evident from the continual emphasis ANC speakers are placing on the benefits which privatisation holds for black economic empowerment and human resource development.

Posts, Telecommunications & Broadcasting Minister Jay Naidoo says government has no intention of relinquishing majority control in institutions such as Telkom, the Post Office, Eskom, Spoornet and the SABC which deliver basic infrastructure and services. "Restructuring will never be used by an ANC-led government to weaken or undermine the aspirations of workers to better their lives."

In December, government said it would sell minority stakes in Telkom, SAA and the Airports Co and fully privatise Autonet, Transkei Airways and Sun Air.

Sigcau told parliament that negotiations concerning an equity partner for Telkom were nearing completion. Up to 30% of the telecommunications giant could be sold to an international investor by the end of the year.

Naidoo assures workers that the move will be linked to "democratisation of the workplace, ensuring greater participation in major decisions relating to issues of investment, affirmative action and training."

"To effect this and go beyond the obligations of the new Labour Relations Act, government has agreed to give the union movement representation on the boards of public corporations."

Sigcau says Sun Air is ready for privatisation which can be implemented without job losses, while loss-making Transkei Airways will either be liquidated or sold for whatever government can get for it later this year.

Aventura leisure group, expected to make a R3m loss this year, is constrained by lack of capital from undertaking much-needed refurbishment, Sigcau says. Staff may take a 25% equity stake when its future is decided towards the end of this year or in early 1997.

Eskom is considering reactivating three power stations with a view to attracting strategic partners which could realise R1bn in foreign capital.

Sigcau says the sale of a stake in SAA and other Transnet divisions is being hamstrung by the R4bn Transnet pension fund deficit. The Department of Finance is being consulted on how to resolve the issue, which significantly reduces the price government can ask for any of Transnet's assets.

Sigcau failed to take parliament into her confidence on the future of Denel, Safcol, Mossgas and Alexkor other than to say that Alexkor, though financially sound, requires internal restructuring to survive in a stagnant diamond market.

MANUEL'S MACRO-ECONOMIC FRAMEWORK

A goal -- not a forecast

Economists agree: the econometrics of Finance Minister Trevor Manuel's new macro-economic framework are sound enough. What they are debating is whether the assumptions fed into the model are credible.

Scenario projections are not a hard forecast. GDP growth of 6,1% in the year 2000 is a goal -- not a prediction. It signals that government has decided to pursue a policy model that will allow it to move in that direction and make those results possible.

But, says Wits visiting professor of business economics Ronnie Bethlehem: "Whether these targets are realised will depend not just on domestic policy formulation, but on exogenous circumstances -- what's happening to the world business cycle. If SA follows the world economy in an upswing, it will be a lot easier for us to reach the targets that have been set. If there is a downswing, it will be more difficult."

There are a number of variables, and some people are afraid the outcome could be jeopardised if they don't all come up to expectations. For example, the framework projects a 14 basis point jump in GDP growth, from 4,9% in 1999.

This assumes significant increases in both private and public investment. That places heavy reliance on the RDP, which may fail to deliver. And it assumes year-on-year real private investment growth of 17% in 2000.

Another reservation: can the Budget deficit be reduced to 3%? Econometrix chief economist Azar Jammine says: "This presupposes a sharp cut in government spending and/or extensive privatisation. It's open to debate whether either will be realised."

The audit to find areas of cost saving in government expenditure, including the RDP, is under way. But, predictably, while Minister of Public Enterprises Stella Sigcau's statement on privatisation gives a measure of certainty, it confirms that the first State

assets to go will be "nonstrategic" small fry like Aventura. The big money is still a long way off.

Adds Jammine: "I am concerned by the assumption that the real annual wage increase in the private sector is taken as -0,5%, compared to +0,8% before the framework. We are already halfway through the year. I don't see that the average wage increase this year is going to be 7,5% if inflation is going to be 8%.

"And numbers aside, will we see the wage flexibility that actually results in the lower wage increases?" Cosatu assistant general secretary Zweli Nzima Vavi went on record last week saying Cosatu will not even negotiate if the starting point is wage moderation.

The day before, President Nelson Mandela, announcing that the new plan would require sacrifice by all, said wage moderation would lead to capital injections and thus more job opportunities.

There is going to be a lot of horse trading, and business knows it. "I detect a big gap between different sectors' reception of the plan," says Jammine. "The financial sector is very positive, while businesses that have a lot of dealings with the unions are more sceptical."

A necessary surplus

So, what will Santa Trevor bring us this year? Last year we found R13,5bn in our stocking in personal income tax cuts. Spending was boosted by R90bn for the next three years. We've had a generous Santa recently.

Despite the munificence, it has become expected for the treasury's budget deficits to come in lower than foreseen. Tax revenues surprise to the upside, and spending is more contained than expected. So the 3% budget deficit forecast ends up being much lower, reaching only 0,3% in 2005/2006. The treasury also boldly declared it would record a surplus in 2007/2008.

Given SA's huge income inequality and social deficit, this doesn't sit well with many. Why are we running a budget surplus when so many people don't have running water? The answer is quite simple: because we have to! Government simply doesn't have the capacity to spend much more. With much grumbling, those on the Left accepted this explanation last year. The general view was that fiscal policy was tighter than desirable, but that there were constraints.

As we await the 2007 budget, we are presented with a completely new judgment by the Harvard economics team assessing SA's economic policies: fiscal policy is too loose at this point in the cycle.

Given the strength of commodity prices and international capital inflows into SA, the team's members believe the treasury should be targeting a surplus in 2007/2008 that's a fair bit bigger than 0,5% of GDP.

Their assessment is that SA's fiscal policy is too procyclical, in that it amplifies the business cycle. They show that reducing this procyclicality would boost growth by 0,36% a year. Has SA's fiscal policy been too procyclical? In practice, yes. But that has not been the treasury's intention. In late 2003 it judged the economy to be slowing, so it opted for a more expansive stance in the October 2003 medium-term budget statement.

In fact the fourth quarter of 2003 was the bottom of the cycle. Over the next year, growth accelerated sharply. What was meant to be anticyclical policy ended up reinforcing the cycle. Persistent, huge data revisions from Statistics SA also don't help matters. It's difficult to judge where in the cycle you are when the numbers keep changing.

To combat these problems, the Harvard team recommends a relatively flat spending profile while taxes would rise and fall with the cycle, generating an automatic countercyclical fiscal policy. This would ensure that expenditure did not gyrate madly across the cycle.

However, expenditure has not varied wildly in SA. Capital spending has persistently disappointed, but that has more to do with lack of capacity than with cyclicality. Do we need to run surpluses when our revenues are not that cyclical? The treasury's revenue estimates remain conservative, with the October 2006 medium-term budget looking for nominal revenue growth of 8% in both the 2008/2009 and the 2009/2010 fiscal years. Growth of 3,5% and inflation of 4,5% would be sufficient for this.

A large budget surplus would also provide the Reserve Bank with a bit more control over the variable I spent my previous column discussing: the rand. If the treasury deposited its surplus with the Reserve Bank, the Bank could accumulate equivalent reserves without having to worry about sterilising excess liquidity in the domestic money market.

Though I'm not convinced that we need to run a large surplus so long as revenue assumptions are cautious, one thing is clear: the Harvard team's recommendations plus the continued strength of consumer spending means far smaller tax cuts from finance minister Trevor Manuel this year. We look for personal tax cuts to total only around R4bn-R5bn next week.

Moola is head of macro strategy at Macquarie

No U-turn

What will happen to SA's economic management when Mbeki and Manuel go?

President Thabo Mbeki's remark that "the years of freedom have been very good for business" in last year's state of the nation speech was apt. The years of freedom have been better than business ever imagined they might be - thanks largely to the shared vision of Mbeki and his finance minister, Trevor Manuel, whose goal has been to build a business-friendly, globally approved economic environment. Can SA still be assured of prudent financial management and business-friendly policies?

Trevor Manuel

The obvious unknown is who will be president next. The race is still wide open. But the political outcome is fairly simple to predict.

The options can be categorised into three: a conventional ANC candidate (such as ANC secretary-general KgalemaMotlanthe or foreign minister NkosazanaDlamini-Zuma); an ANC business tycoon (such as Cyril Ramaphosa or Tokyo Sexwale); or a third, Left option. The Left candidates include, as a diminishing possibility, Jacob Zuma, who has campaigned with the trade unions and the SA Communist Party.

The first two options would bring business as usual. But how much could a Left-leaning president change the environment for doing business?

As a mass-based organisation with constitutional structures able to insist on a responsive leadership, the ANC is highly vulnerable to economic populism. Demands for an expansionary approach to government spending could conceivably be rallied around and won. A basic income grant is a good example. But pushing up consumption spending by introducing income support across the board would be bad for inflation and put pressure on the rand.

"The Chavez option is not a realistic one in SA. One needn't have lurid worries about that" - MICHAEL SPICER

But just as the ANC feels the pressure from its base and will so more and more the closer the December 2007 conference comes, there are other pressures propelling it towards fiscal caution.

Top of the list is the global community - including multilateral organisations like the World Bank and IMF, big foreign investors and ratings agencies - which all act to subdue policy exuberance. Next are SA's own established institutions - the independent central bank and the prudently run SA Revenue Service.

There is also a firmly rooted understanding in the ANC, which permeates several layers of leadership right through to the provinces and municipalities, that it is business that makes the investments necessary for jobs and prosperity.

All this means that "the culture of macroeconomic management is well-entrenched", says commentator and analyst IrajAbedian, chief executive of Pan African Advisory Services.

"A new leader might bring about a change of emphasis but not a fundamental change" - SAKI MACOZOMA

"I don't hear any voices calling out to abandon Reserve Bank independence or inflation targeting, and start printing money," he says.

Michael Spicer, chief executive of Business Leadership SA, agrees that the risks of a even a "leftish" candidate in the presidency are not something about which to be unduly concerned.

"The range of possibilities is quite limited, given the institutional and global constraints that act on policy. The [Venezuelan president Hugo] Chávez option is not a realistic one in SA. One needn't have lurid worries about that," says Spicer.

Policies out of step with global convention would inevitably face reaction and correction.

The ANC's policy conference in July looks set to settle worries about economic management in the future, when it again debates the organisation's policy on the economy.

Says NEC member and Stanlib chairman Saki Macozoma: "Most of us hope this will be settled by the policy conference and that basic economic policy will remain the same. A new leader might bring about a change of emphasis but not a fundamental change."

Such changes in emphasis might be felt most in the internal power and organisational dynamics of the state.

A new finance minister, for instance, would be unlikely to have the great influence and clout that Manuel has in government, and one might expect a slightly weaker, less influential treasury.

The same goes for the presidency. Under Mbeki, the office of the president has accumulated significant powers and capacity. It is largely responsible for co-ordinating the work of departments, monitoring their progress and putting together over arching strategic plans.

A serious risk of the transition to a new leader is that such competence might be lost as old staff leave or are pushed out to make way for new political appointments.

This points to a far bigger problem and one that far overshadows concerns of sound economic management.

The dominating challenge for the next three years (while Mbeki and Manuel are still in power) and spanning the 10 years beyond "is to establish a culture of effectiveness and efficiency in the public service", says Abedian.

The decline of service levels and efficiency in the public service because of patronage and inappropriate appointments is presenting SA with a far bigger challenge than the management of the macro economy.

" One hears more and more frequent reports of ineffectiveness, lack of service delivery, lack of timeliness and of a culture of inefficiency. This is a management issue, a skills retention and acquisition issue and a question of system changes," says Abedian.

It is also, perhaps most importantly, an issue of depoliticising the state.

"When appointing a chief director or a director, the criterion must be competence, not loyalty or credentials related to what that person did in the past. Those people [comrades from the struggle] must be rewarded in another way," says Abedian.

In the US, for instance, a similar politicised civil-service culture prevails where top officials (the equivalent of cabinet ministers) bring in an entirely new staff when their term of office begins. But in SA, such politicisation permeates all levels.

"We must focus on the infrastructure of the state and distinguish it from the political infrastructure," says Abedian.

To best guarantee its future, business then needs to do what it can to boost state capacity and support shared objectives. This is a role that government has been happy to see it play, calling for a bigger role for business in the financing and provision of public services.

MBEKI'S ECONOMIC LEGACY

An eye for a winning team

The one area where Mbeki will emerge with a high score is the economy

In their final term as heads of state, presidents around the world start giving thought to their legacy. President Thabo Mbeki will be no different, and while history may give him a mixed political report card, the one area where he will emerge with a high score is the economy.

In his eight years as president - and five years as effective COO in the Mandela presidency - Mbeki has overseen an economy that was headed for failure when it emerged from decades-long global isolation.

SA has clocked up successes that are impressive whichever way you look at it: the economy, with 32 quarters of positive growth, has spurted to its fastest pace in more than two decades; the inflation dragon has been tamed; and government coffers are showing their first budget surplus in history.

In achieving these milestones, Mbeki has seen his role as lending (almost) unconditional political support to his two trusted lieutenants - Trevor Manuel at national treasury and Tito Mboweni at the Reserve Bank. These two men have, with considerable personal candour and charisma, made SA an attractive destination for international portfolio investors - but only after initial scepticism.

Manuel, for one, sen t financial markets into a tailspin by referring to them rather dismissively as "amorphous" soon after taking over at the finance ministry in 1996. Few paid attention to his more thoughtful promises of taxing SA "smarter not harder" and his gradual reform of the SA Revenue Service (Sars).

Similarly, Mboweni was greeted with uncertainty despite spending a year as understudy to the respected Chris Stals. But within months of taking office in 1999, Mboweni had moved decisively to address SA's burgeoning forward book - what he termed the country's "overdraft in dollars" - and started the build-up of the country's gold and foreign exchange reserves.

This has helped support the volatile rand and allowed interest rates to hover near 20-year lows, raising business confidence and fuelling a consumer spending boom.

Within a few months of taking office, both Manuel and Mboweni had boosted their approval rating among investors and the business community. And over the years they have bolstered their market-friendly credentials.

Manuel has lowered the corporate tax rate from 40% to 29% (though he introduced a 12% tax on corporate dividends at the same time) and government has offered an estimated R85bn worth of personal tax relief since 1995.

And by restructuring Sars and staffing it with highly efficient managers - notably commissioner PravinGordhan - he has bolstered state coffers to the extent that government managed to whittle down its vast debt obligations and, in later years, create sufficient budgetary funds for government departments to accelerate spending.

The international investment community has taken note: SA's international credit ratings have climbed steadily since 1994, putting the country on a par with Thailand and Mexico, and a notch ahead of Russia. (See graphic page 40.) As a result, there have been global capital inflows of around R100bn during each of the past three years - a marked contrast to nearly a decade of consecutive outflows before apartheid ended.

"SA is now the poster child for fiscal efficiency in emerging markets; it is unique in the extent to which it has been able to oversee fiscal consolidation and achieve a budget surplus despite all its other social requirements, and without a fire sale of its assets," says Razia Khan, Africa economist at Standard Chartered in London.

"Don't forget, this is a country that is transforming its economy, trying to address grave income inequalities and achieve rapid economic growth at the same time."

But while the economic MMM (Mbeki-Manuel-Mboweni) axis has racked up undoubted macroeconomic success, inroads into the enormous socioeconomic challenges - particularly high unemployment and widespread poverty - have been

more difficult to achieve. Half the country's black population is still defined as living below the international poverty level of US$1/day.

And this despite exponential increases in government's social spending and better delivery of basic services.

At the same time, the official unemployment rate has risen to 25,6% from 20% in 1994, though rapid job creation during the past three years has helped it to descend from a peak of 29,4% in 2002. When the expanded definition of employment is taken into account - which includes discouraged jobseekers - the rate stands at 39%, versus 31,5% in 1994.

"SA is at that point where it can say, we turned the economy around, we have growth sustained and increasing - now we can deal with the issues of unemployment and poverty," says IrajAbedian, CE of Pan African Capital. "There is no question we can do it, but in some ways the issues are more technically challenging and intractable."

Abedian was one of the architects of government's Growth, Employment & Redistribution strategy (Gear) launched in 1996, which outlined tough goals for rebuilding and restructuring the economy. Gear built on some of the main principles of the Reconstruction & Development Programme (RDP).

The RDP set out aims which were broadly social in nature: it pledged to meet the most basic human needs of housing, water and electricity, develop SA's human resources, build the economy and make both state institutions and society more democratic.

There has been significant headway on all of these fronts; the number of households with access to clean water has climbed from 68% in 1994 to 88% last year, while the proportion of those with electricity has risen from 58% to more than 80%. An estimated 71% of the country's 12,7m households now own their homes, according to figures from the SA Institute of Race Relations (SAIRR).

But despite these successes, the departure from RDP to Gear revealed the ideological faultlines in the ANC for the first time. Many on the so-called Left of the ruling alliance - Cosatu, the SA Communist Party and the left wing of the ANC - felt

Gear was tilted too much towards reliance on market mechanisms and away from state intervention.

These faultlines have become far more accentuated in recent years, with the Left openly critical of Mboweni and Manuel - and by implication Mbeki.

SA has no single accepted criteri on for measuring poverty, but independent studies show that if the only criterion is wages, the ranks of the poor have swelled. With income as a litmus stick, SAIRR research shows the proportion of South Africans living in relative poverty has risen from 40,5% in 1996 to 47%, after peaking at 51% in 2002.

The bulk of the poor are from the country's black majority, with the ratio for this group up at 57,2% from 50,3% in 1996, also off a peak of 62,4% in 2001 and 2002. But SAIRR researcher Marco MacFarlane says that if social grants are taken into consideration, there are probably a lot more people who are less poor.

" Since large-scale social grants were instituted in 2002, we have started to see people in dire poverty moving out of that, though it is clear that job creation is not going on fast enough to push poverty back at the rate we'd like to see," he says. "The social wage is often not taken into account and if you look at it, there are probably a lot more people who have been pulled out of poverty."

The "social wage" includes free services like water, electricity and schooling, along with social security, welfare, housing and community development. Social services, including education, take up the biggest chunk of government's budget, with welfare spending alone up at R80bn this year from a mere R10bn in 1994. An estimated 11m people - nearly a quarter of the overall population - now benefit from social grants, compared with 2,6m 13 years ago. Not quite a nation on welfare, but nearly there.

"The only negative thing to say is that social grants are an unproductive way of pulling people out of poverty; they may not have the incentive to look for work," MacFarlane says. "Also, as the proliferation of social grants continues apace, they

may at some point become unaffordable... they need to go hand in hand with job creation."

The exploding welfare bill explains the reluctance by top officials to back a basic income grant : at present, grants are aimed at specific issues, like disability and child care.

It's also simplistic to argue that no inroads have been made into unemployment and poverty, and in this respect it is insightful to divide the 13-year reign of the ANC into two eras. In the first phase - roughly up to 2001 - SA's economy shed an estimated 1m jobs, a trend seen as the natural outcome of opening up to global competition after years of isolation, along with advances in technology and the reform of unwieldy state enterprises. Since then many more new jobs have been created, an estimated 1,5m in the past three years alone. This development was spurred by a booming retail sector, along with an increase in manufacturing, community services and agriculture.

The turnaround can be linked to growth that has gathered momentum over the past few years, with SA's economy expanding by 5,1% in 2005 - its fastest pace since 1984. In the decade before democracy, gross domestic product (GDP) grew by an annual average rate of just over 1%, which quickened to 3% in the next 10 years.

Government aims to raise the pace to at least 6% by 2010 as it works to reduce unemployment to less than 15% and halve extreme poverty by 2014. It has targeted fast-growing, labour-intensive areas like tourism, business process outsourcing and biofuels for job creation in a new official strategy, the Accelerated & Shared Growth Initiative for SA (AsgiSA).

Hammered out after a government *lekgotla* in 2005, AsgiSA picks up where Gear left off, identifying bottlenecks in the economy and proposing solutions. It has identified six binding constraints to government's ambitious growth and employment objectives. These include volatility in the rand - which hampers the ability of business to plan ahead - along with the currency's relative strength, widely seen as a deterrent to growth in exports, particularly in the manufacturing sector.

SA's exports stood at about 20% of GDP in the third quarter of last year, lagging behind a surge in imports, which account for 26% - the result of strong consumer demand and a massive infrastructure spending drive by government.

The discrepancy between the two has helped push the deficit on SA's current account of the balance of payments - which is the broadest measure of trade in goods and services - to 6,1% of GDP in the first quarter of this year from a surplus of 0,8% in 2002. So far the gap has been covered by capital inflows, but if they suddenly dry up, the rand could abruptly depreciate, igniting imported price pressures.

A managed weakening of the currency appears to be a nonstarter, with general agreement in government and the Reserve Bank that market forces must determine its level. Global experience shows that markets generally win against official intervention.

Memories are still painfully fresh of the 1998 global emerging-market crisis - when Mboweni was under Stals's tutelage. The Bank spent billions of dollars in a vain attempt to defend the rand from speculators, and hiked its key repurchase rate by nearly seven percentage points to a crippling 21,85% in the space of a few months. It was a lesson Mboweni vowed never to repeat.

It also drove the Reserve Bank governor to strengthen other aspects of monetary policy. Purchases on the forward foreign exchange market had built up a loss-making legacy of more than $25bn at the time Mboweni took over. He had wiped out the forward book by the first quarter of 2004, allowing the Bank to gradually build the country's gold and foreign exchange reserves from a net negative position to a positive $25bn by the end of January 2007 - an achievement that has dramatically enhanced SA's financial credentials.

Many also flinch when remembering the rand's abrupt descent to a historic low of R13,85 in late 2001, after a global flight to safe-haven assets triggered by the September 11 2001 attacks.

But since early 2002 the rand has staged a dramatic recovery as domestic consumption has accompanied the dramatic recovery in SA's growth and helped bring inflation back within its 3%-6% target range, where it has now remained for 41 months in a row.

The rand's relentless ascent to a seven-year peak of R5,65 late in 2004 was almost equally disconcerting for SA, hitting the manufacturing sector, which accounts for more than 16% of GDP and is seen as crucial to job growth.

The currency has gradually depreciated to stand at about R7,20/ $ now, but many business executives feel it is still too strong to provide exporters with a competitive edge.

There is consensus that a steady, slow depreciation of the rand would be ideal for growth and jobs, but it is hard to see how that can be deliberately managed - particularly in an environment of strong commodity prices, and capital and investment flows - which are all ultimately desirable for the SA economy.

"It's going to be difficult to weaken the rand through verbal intervention. The currency is uncompetitive, but there are a lot of forces going to work against that aim. The market will inevitably win," says Brait economist ColenGarrow. "The outlook for the rand is reasonably firm but the main thing is that it will also be reasonably steady, which is what business wants."

Officials have pointed out that one of the upsides of the rand's strength, along with keeping price pressures at bay, is that local business practices have improved after years of dependence on the fillip a weaker currency gives to exports.

Beyond the macroeconomic impediments, structural problems have also come to the fore as SA's economy has picked up pace. As highlighted by AsgiSA, the economy is experiencing a severe skills shortage, stemming from skewed education policies during apartheid. This may hamper official plans to spend more than R400bn on infrastructure projects over the next three years. The so-called "brain drain" of skilled citizens has worsened the problem.

"I don't want to dramatise this but in my view it's a very serious shortage. There may be as many as 500 000 job vacancies not being filled in this economy, with the bulk of those in the public sector," says Abedian. "Municipalities haven't got engineers or project managers, hospitals don't have enough doctors, schools are short of mathematics and science teachers."

HaroonBhorat, an economist and development analyst at the University of Cape Town, thinks that in the short term, the answer is to import skills, but in the medium term, the burden is on technical training at universities and colleges. "One hopes we can scale up quickly enough to meet the shortage... to provide requisite skills in an efficient and effective time frame," he said.

Cost, efficiency and limited capacity in transport and electricity infrastructure are also challenges that government aims to tackle. Power blackouts have multiplied in the past few months as state utility Eskom battles to meet surging demand, raising concerns about output, particularly at large industrial and mining producers.

Those problems stem mainly from failed government policies years ago to try to introduce competition into the power market at a time when there was limited appetite among global utilities. Eskom was thus late to the game and is now playing catch-up.

AsgiSA has also cited limited competition in key industries such as telecommunications, a heavy regulatory burden and "deficiencies" in state organisation and leadership as constraints to faster growth and job creation.

There is almost universal agreement now that the main stumbling block is not formulating policy but carrying it out. "Broadly speaking we have good policies; the problem is implementation," says Sanlam group economist JacLaubscher.

"The answer is to improve capacity in the public sector in terms of training. For many years to come, SA will be faced with the challenge of human resource development. We have to be realistic as far as that is concerned."

Adds Standard Bank economist GoolamBallim: "The main economic challenge is to sweat the assets more productively, in both human and physical capital. SA appears to lack a work ethic and enterprising spirit, and this needs to be rediscovered."

Perhaps even more damaging than the structural economic impediments identified by AsgiSA are the political and social elements, which are beyond Manuel's direct control. Rampant crime in particular is seen by business leaders as a serious constraint on investment in the country's economy. SA's murder rate has fallen by 40% since 1994, but still stands at a staggering 50/day, one of the highest in the world.

There is frequent criticism that the racial transformation of the country's economy has not taken place as quickly as it should, despite government's broad-ranging black economic empowerment programmes, which are carried out by the private sector through targets in every key industry.

In his state of the nation address this year, Mbeki pointed out that black people owned a meagre 5% of the market capitalisation of the JSE, while making up just 27% of top management in business. "We must remain concerned that these figures are woefully low," he said.

Still, Mbeki can point to an economy that in many other respects has started to chip away at white dominance of most sectors. Income disparities have widened in all race groups, except whites, since the advent of democracy. However, Ballim says the trend can be seen as positive as it points to upward mobility for previously disadvantaged individuals.

"The most constructive change in the economy has been the extent to which contemporary leadership is paying attention to the details of transformation in the private sector. There is a greater appreciation of this and the private sector is putting its back into it more, with a greater realisation of its opportunities," he comments.

"By our estimates and living standards measures, you have a greater number of people with higher living standards - and 70% of the individuals experiencing upward migration represent the black community," Ballim adds.

Independent research has given weight to the theory that an emerging black middle class is partly responsible for SA's faster rate of growth, giving rise to record credit demand, surging property prices and strong retail spending. That would point to a structural change in the economy and help explain why domestic demand is still robust despite four interest rate hikes which have taken prime lending rates up to 12,5% from 10,5% in June 2006.

In a 2007 study which will be published in March, TNS Research Surveys says that black consumers now account for more than a quarter of the country's total annual spending power of R630bn. Dubbed the "black diamonds", they have an average monthly personal income of R6 200 and their ranks are growing at an estimated annual rate of 33%. At present, the group accounts for 12% of the 22m-strong adult black population, says Research Surveys director Neil Higgs.

"We have noticed a big shift from townships into the suburbs since we did our first survey on this group in 2005. The number of black households in formerly white suburbs has risen from 23% to 45%," he adds. "We had seen little evidence of the power of this market in 2001 and we think that it really only started to grow late in 2002."

Over the next few years the gradual demographic and economic transformation will perhaps be judged Mbeki's greatest economic legacy. For now, his appointment of Manuel and Mboweni - and giving them unrestricted political support - appears to be his political master stroke.

The risks of a shift to state welfarism

The 2007 budget will be remembered for one reason: it has marked the point at which SA irrevocably committed itself to becoming a welfare state. There was much in the budget to aid the business environment, from the phasing out of secondary tax on companies to loosening exchange controls on foreign investment. Such pro-business policy shifts characterise Manuel's tenure and have fattened the goose. But Manuel has signalled that it is time to use the golden eggs. We have stepped through the door to a comprehensive welfare state.

One cannot accuse Manuel of profligacy - yet. The economy is on a historic high: a budget surplus was recorded last year for the first time in living memory and another is expected this year. Revenue collection continues to outpace targets, this year by 6,6% or R29bn. Individuals are to receive an R8,4bn cut in personal tax.

The budget revealed that 12m South Africans now receive social grants - a remarkable expansion from 10 years ago, and double the number three years ago. These grants are primarily means-tested old-age pensions and child support grants. Yet the scheme Manuel announced - a compulsory national insurance covering wage subsidies, unemployment insurance, disability grants, death benefits, retirement savings and possibly medical aid - is a universal welfare scheme that will sweep all South Africans into its net. Every employee will be faced with a new tax: a social security tax, in the vein of the national insurance contributions collected in welfare states like the UK. National treasury expects the tax will amount to 13%-18% of earnings, which will somehow replace the current deductions that are made for UIF and pension scheme contributions. The bureaucracy needed for such a scheme is in itself a frightening prospect. The trouble with government's welfare efforts has been weak administration. There is plenty of money for housing, education and health care, yet inadequate capacity to actually deliver the services. Surely government focus should be on getting that bureaucracy right, rather than creating an elaborate new one with a purpose largely handled by the market now?

It is uncomfortable ground for those who believe government should play a minimal role in individuals' financial affairs. Welfare states around the world, particularly Scandinavian and Western European countries, provide sobering lessons. Manuel

has fiscal wriggle room, thanks to a solid economy and an efficient revenue collection mechanism, albeit off a tax base of only 5m. But taxes don't go up easily, and welfare costs don't go down, whatever the performance of the economy. Those two opposing political pressures are exactly what has landed welfare states in deep water. When revenues fail to support welfare liabilities, the only politically feasible option is to defer the costs to future generations - hence the huge deficits many welfare schemes face.

Manuel's bowing to the welfare genie is evidence that SA is vulnerable to the same pressures. It is pay back time for the left flank of the ANC alliance, which has gritted its teeth while the Manuel/Mbeki/Mboweni troika created a tight, investment-friendly macroeconomic environment (see "An eye for a winning team" , page 37). The timing is telling. Though the Left has always been promised that its patience would be rewarded, it has recently become a dangerous force, requiring an urgent tactical response. Jacob Zuma is cast, rightly or wrongly, as a pro-poor choice for presidential candidate. With the ANC national conference due in December, at which the next leader of the party will be chosen, it is particularly important to show that pro-business policies do actually deliver for the poor.

Manuel cast the shift to welfarism in terms that business will find somewhat palatable, always wary of pouring sand in the engine that has delivered the economic space he now enjoys.

The shift to welfarism is defined as an egalitarian measure - he reminded his audience 18 times that "human life has equal worth" during his speech. It is a premise that strikes a chord with the moral sensibilities of Left and Right. Of course, it is a premise that does not automatically translate into the redistribution of wealth - a jump of logic that was glossed over. Yet it is good politicking: take the common ground and assume it implies the policy you want accepted.

In addition, the abolition of retirement fund taxes, also announced in the speech, is a helpful nod to a pension funds industry that is nervous about government's plans (although these have left open the possibility that the private sector will manage the savings pooled in the scheme).

The shift is also put in economic terms that will wash with many free-marketeers. The *Budget review* quotes the report of the 2002 committee of inquiry into a "Comprehensive system of social security for SA" that greater income security allows the poor to escape a survivalist trap, "to risk pursuing higher-return activities that can break the cycle of poverty". This harks to an interpretation of egalitarianism we support: that all should enjoy equal opportunities. Yet such opportunities, we believe, can be much better provided for than through cash hand outs to the poor.

Many of the budget's priorities are pro-poor: new allocations were particularly directed towards education and teachers' salaries, social workers and the health sector, and more money to fight the Aids epidemic. Additionally, infrastructure expenditure has a poor bias as it largely provides for public goods and housing. Such spending on social service provision, if done wisely, provides opportunities for the poor to escape the poverty trap, particularly through access to affordable, quality education. That is the way the state should provide for egalitarian concerns - provide the opportunities, then allow individuals through their own hard work and talent to take advantage of those opportunities. Government knows this with one hand of its welfare instinct.

Welfare schemes, by their very nature, can generate perverse incentives: they provide a reward for a certain type of behaviour. That behaviour is almost never what is otherwise economically rational. Manuel noted that low-income workers have no incentive to save for retirement, as doing so weakens their claim to a state pension through means testing. What he is proposing is more of the same.

Big picture missing

The outlines of the social security tax, wage subsidies, education and community interventions were welcome, but the budget speech was thin on detail about government's broader macroeconomic plan.

Though the Accelerated& Shared Growth Initiative (AsgiSA) identifies constraints to economic growth and outlines economic interventions, what was missing was communication about any shift in government's underlying economic philosophy.

The small surplus for the past fiscal year and the upward revision of the expected surplus for the coming fiscal year signals a change in government's macroeconomic management plan.

The budget had no further detail regarding previous official comments about wanting a more "competitive" currency and other means of addressing inflation apart from using interest rates. Last year a group of leading economists and academics, organised by Harvard University, were given a mandate to research constraints on growth in SA.

Seven working papers have been completed. The first, by DaniRodrik, a development economist, found that the strong rand had retarded the development of the export and tradable goods sectors.

But subsequent papers found that a focus on competition policy, trade policy and microeconomic inefficiencies would have a greater impact in the promotion of the export and tradable goods sectors than tampering with the rand.

Furthermore, the research for the Rodrik paper was done in early 2006, when the rand was just around R6/US$. It is now above R7; is the message that this is a satisfactory level or not?

Managing the rand weaker would be a risky and expensive exercise. A weak rand is inflationary, and given the inflation targeting regime, the Reserve Bank would be forced to hike interest rates.

This might be why government has begun to look for other ways of controlling inflation, like increasing the reserve requirements of banks. Is this the end of inflation targeting? Is this why we are running a budget surplus - to finance the cost of selling rands and buying dollars? Has the move towards tighter fiscal policy and a balanced budget been the result of underspending and unexpected revenue overruns, or was it planned?

A budget surplus will certainly help to finance the cost of keeping the rand weak. Managing the rand weaker would entail selling rands and buying US dollars. To avoid the inflationary impact of increased rand liquidity, treasury will have to issue bonds.

There might be some argument that we need to build foreign reserves, but reserves are not the only measure of reduced external vulnerability. SA's external debt-to-GDP and external debt-to-exports ratios have come down significantly.

In addition to the financial cost to treasury, with import parity pricing on maize and other basics, a weaker rand will lead to higher food prices. The overall inflationary impact will lead to painful macroeconomic adjustments as interest rates rise.

The other area of disappointment was the lack of creativity in targeted tax interventions. While the scrapping of the retirement fund tax and the changes with regard to the secondary tax on companies were welcomed, there was nothing more for small business.

Given our current budget surplus, cash is not our problem. While the treasury is reluctant to fuel inflation, there are opportunities for more creative, targeted tax relief.

The minister missed an opportunity to give clarity on government's economic outlook and provide creative interventions in labour-absorbing industries.

Woodroffe is chief economist at Metropolitan Asset Managers

Do we have enough say?

Medium- term statement reveals proposals and lets MPs engage with budget

By the time finance minister Trevor Manuel took to the podium to deliver his10th budget, little was left to surprise. That's because the medium-term budget policy statement (MTBPS) is tabled in October each year and, with the adjusted estimates of national expenditure, it summarises government's perspective on the broad economic outlook for the coming three years. The MTBPS provides information on budget allocations and priorities over the same period, and indicates how the intended expenditure will be financed.

For years a number of civil society advocacy groups and even some MPs have complained about parliament's lack of input in drawing up the budget or power to amend any of its proposals.

Though the constitution allows parliament to reject or amend proposed legislation, section 77 (2) specifically curtails its amendment powers in respect of money bills, among which is the budget. According to the constitution, powers and procedures to enable parliament to amend the budget must be established through specific legislation, which, 10 years after the adoption of the final constitution, is yet to be tabled. Many argue, too, that the lack of amendment powers also reduces civil society's ability to participate in the budget debates.

But the chairman of parliament's portfolio committee on finance, Nhlanhla Nene, believes it is "not proper" for parliament to be involved in the drafting process of the budget. "Parliament has an oversight responsibility with regard to the budget so [our effectiveness] depends on how well we use the parliamentary process," he says.

Nene says the filing of the MTBPS four months before the budget is tabled offers a clear indication of the proposed funding structure and gives MPs "adequate opportunity to engage with the budget".

For government, the MTBPS is crucial as it ensures that when the budget is tabled in parliament it comes with few or no surprises or shocks.

According to the political and policy thinktank, Idasa, the “predictability”of fiscal policy has also served to reassure initially wary investors, who may have feared the ascendancy of “macroeconomic populism” in the form of ad hoc redistribution and “fly now, crash later” approaches to budget deficits and money creation.

In an extensive paper on the budgetary process released ahead of the MTBPS last October, Idasa says the greater predictability of budgeting also reduces the likelihood of financial speculation, which tends to thrive in an environment of uncertainty.

When the budget is tabled in February, it consists of two bills and supporting documentation:

the Appropriation Bill, which authorises the withdrawal of money from the national revenue fund, and the Division of Revenue Bill schedules, which is the breakdown of allocations from the national revenue fund between the three spheres of government and between the different provinces and municipalities within each sphere.

According to one of the authors of the Idasa paper, Len Verwey, parliament and civil society’s ability to engage meaningfully with the budget at this point is severely constrained by circumstances.

With parliament under considerable pressure to adopt the budget and legalise public financial operations, the passage of the bills is not the best time for detailed discussion of broader macroeconomic and fiscal policy considerations, issues which Verwey says are never theless fundamental to the budget.

“We believe that the MTBPS provides parliament and civil society with a good opportunity to prepare for the forthcoming budget, to reflect on broader macroeconomic issues, and to consider and attempt to influence government spending plans over the medium term,” Verwey says.

“More importantly, in terms of the oversight process, as the MTBPS updates the medium-term economic framework, it specifically allows parliament to check whether the executive has factored in concerns raised in prior years regarding the development of future policies.”

Long road ahead

The political challenge is to build capacity and reduce patronage

The economic story of the 2007 budget is again a good one: SA's growth path is established; strong spending increases are planned; and the treasury looks healthy enough to extend social security by R20bn-R30bn/year.

But what is the political story of the coming year? How will the political environment help or hinder the achievement of finance minister Trevor Manuel's aims? As usual, it looks like politics will make things difficult for policy-makers.

Manuel says the aims of this year's budget are "to accelerate economic growth, modernise public services and fight poverty and inequality".

There are also two other rather large political goals lurking in the background - to achieve 6% growth by 2010, and to halve unemployment by 2014, as stated in the ANC's election manifesto and in government's economic growth plan, the Accelerated & Shared Growth Initiative for SA (AsgiSA).

Manuel warns that important things need to be done to reach these targets. "We had growth of 4,8% last year and we're looking at 5,1% and beyond thereafter. But to get to the next level requires a bigger investment in the binding constraints," he says.

See table: Trevor's budget priorities.

One of these constraints (others include insufficient exports, cutting red tape and low productivity) is state capacity, a factor with a direct bearing on political dynamics and outcomes.

While weak state capacity might look like a problem of skills, this is only a part of the problem. Where municipalities, for instance, happily say goodbye to the last engineer in their employ because he is white, and where MECs and heads of department arrange jobs for unemployed members of the ANC, the issue of state capacity rapidly becomes a political issue.

Says analyst IrajAbedian, CEO of Pan African Advisory Services: "The challenge has to be to depoliticise the state. When a director or a chief director is appointed, for instance, the primary criterion has to be competence, not loyalty or what he has done in the past."

Manuel singles out the department of home affairs (where a R1,1bn turnaround strategy is in place) and municipalities and provinces as being areas where capacity is particularly weak owing to corruption, patronage and a shortage of skills.

The collapse of the distinction between party and state, responsible for such politicisation, is easily one of the biggest failings of the transition. The ANC plans to revisit the idea at its policy conference in July.

Another failing that can be singled out, and where political pressures have again played a defining role, is education. Skills production is vital to hitting the growth and unemployment targets, yet 13 years after democracy, the system still fails the majority of the population and last year produced no more maths and science graduates than the year before.

The 2007 budget, through targeted interventions, hopes to correct some of these failings. The realisation by Manuel that it is teachers who hold the key, as it is "in their hands that we place our 11m children each day", is crucial. The budget makes available an additional R8,1bn over the next three years for "personnel-related issues in schooling". This doesn't just mean better pay for years of service, but also incentives to teachers in critical subjects and improved support for schools by hiring additional teachers, administrative staff and teaching assistants.

Improving teaching is the key; 12 000 teachers are unqualified (without matric or tertiary qualification) a s are one-third of grade 10, 11 and 12 maths teachers.

These interventions have been a long time coming and are better late than never. But even though the money is provided in the budget, it will be some time before measures like incentive pay for subject teachers are accepted by the trade unions. Unions, in particular the SA Democratic Teachers' Union (Sadtu), have strongly

opposed differential pay. It took years to get agreement on a 1% merit award. And Sadtu has vociferously defended unqualified teachers.

By far the biggest spending increase this budget went to housing, which gets an average 18% more annually over the next three years - an enormous escalation, from R4,6bn in 2003/2004 to R12,5bn in 2009/2010. Over the next three years, R32bn is earmarked to be spent on housing. But current rates - 252 000 houses last year - barely keep up with the formation of about 200 000 new households a year, so that historical backlogs persist.

Plans by housing minister LindiweSisulu to acquire well-located public land for housing through a special-purpose vehicle are important, but unlikely to make a big enough difference, given the scale of the problem.

Large spending increases on social services (spending grows 7,7% in real terms overall) are very much in line with how the ANC plans to shape the future state and position itself, and how President Thabo Mbeki would like to see his legacy.

In a clear indication of what the ANC wants to be 10 or 20 years from now, the party's most important guiding strategic document was recently redrafted for discussion at its July policy conference. It says the ANC should model the state on "the best traditions" of social democracy - as in Scandinavia - and the developmental state, as in East Asian countries like Malaysia.

Moves to further expand social welfare, but this time to make it a contributory system by introducing a mandatory retirement savings scheme, take SA further down the road of social democracy and are estimated to cost an additional R20bn-R30bn/year.

With 11,8m people already on welfare, SA may have the largest welfare system in the developing world. Direct income assistance grants rose only marginally, with the old-age pension increasing by R50 to R870 and the child maintenance grant increasing by R10 to R200/month.

Modelling SA as a variant of social democracy is clearly quite advanced. The same cannot be said of the intention to be a "developmental state", which assumes a high degree of state planning and intervention. Given its capacity constraints and highly

politicised civil service, policy-makers are just discovering how weak the SA state is and how long a road we must travel to emulate the tigers of the East.

Manuel rolls in it

Manuel exploits record economic position to deliver for the poor

Finance minister Trevor Manuel unveiled SA's first budget surplus in history with very little fanfare, saying that it provided the means for social security reform aimed at the poor and an infrastructure spending drive needed to sustain faster economic growth.

But his 2007 budget was also the kind of master balancing act which people have come to expect from the 11-year veteran, credited with putting SA's economy firmly into the global arena while also tackling the immense social challenges of unemployment and poverty.

Manuel gave business a welcome and unexpected boost, announcing the staged abolition of the hated secondary tax on companies (STC) which analysts say bumps up the effective corporate tax rate to 36,9% from 29% - well above developed-country norms.

He also eliminated the retirement fund tax, after halving it to 9% last year - a move that should help boost SA's low level of savings, seen as a major constraint to productivity and investment. Personal tax cuts aimed at low-income earners amounted to R8,4bn, bringing net tax relief to R12,4bn.

See table: Departmental budgets.

Growth forecasts were revised upwards to 5,1% over each of the next three years.

But the centrepiece of the budget - which kept spending on health, education and welfare government's priority - was undoubtedly its unplanned surplus, amounting to 0,3% of gross domestic product (GDP) in fiscal 2006/2007.

"If you want the definition of fiscal space, here it is... we say to you, here is a surplus with real growth," a smiling Manuel told reporters ahead of his budget speech.

"We are taking a somewhat cautious approach; it's not a bad thing not to have debt. It's a good thing if government can contribute to a good pool of savings in this country."

Government revenue surpassed forecasts by R29bn in the past year, with company tax, Vat and personal income tax all exceeding estimates as domestic consumption boomed, despite four interest rate hikes in the second half of 2006.

At the same time, expenditure for the year ending in March 2007 fell R3,6bn short of target, generating a budget surplus of R5bn. This compares with official forecasts last October for a deficit of 0,4% of GDP, turning into a surplus of 0,5% in fiscal 2007/2008. Now a surplus of 0,6% of GDP is expected for the coming year.

See table: Functional breakdown.

Manuel admitted that the overshoot could partly be attributed to rising prices for commodities like platinum and gold, which are both mainstays for the continent's biggest economy. He was also frank about capacity constraints and SA's skills shortage, identified as being among the main obstacles to government's goal of boosting economic growth to 6% by 2010. "There are enormous capacity constraints. Some are global and some are uniquely South African. The ability to roll out infrastructure as it is in our budget is somewhat constrained," he told reporters.

SA aims to pump about R417bn into roads, housing, ports and railways over the coming three years, with the spending target steadily being revised upwards. Manuel said better planning by government departments would help keep the programme on track.

His deputy, JabuMoleketi, was more upbeat. He is confident that SA will be ready to host a successful soccer World Cup in 2010, with expenditure of R17,4bn on stadiums and supporting infrastructure running according to plan.

The event is a litmus test for a country still often perceived overseas as a dangerous place to visit, given its high levels of violent crime. This could hinder official plans to focus on tourism, a labour-intensive and fast-growing sector seen as key to bringing down an official jobless rate of more than 25%.

"Our government recognises the seriousness of our crime situation and will continue to provide leadership in the fight against crime," Manuel said. Since 2003/2004, allocations to the police had climbed by 43%, and resources were set to rise by another 34% over the next three years, he said.

But Manuel called on communities and individuals to join the battle, so that every South African could help construct a society where "human life has equal worth", a refrain throughout his speech.

"This is an overwhelmingly positive event... we are looking to the future with 5% growth in the medium term and a balanced budget... SA is in a position few would have expected it to be in just a few years ago," says Razia Khan, Standard Chartered's London-based Africa economist.

"If you take the social demands being placed on fiscal policy, SA is in a strong position now, so it's good that a lot of the long-term issues are being addressed."

Any way you look at it, the macroeconomic and fiscal achievements which Manuel and his team have achieved are tremendous. Since 1999, the country's debt to GDP ratio has plunged to 26% from 49%. Debt service costs are set to subside even further, sinking to 2,1% of GDP in 2009/2010, from 3,0% last year.

Inflation is set to remain inside its 3%-6% target, peaking at an annual average of 5,1% this year, then descending to 4,7% in 2008 and 4,5% in 2009, states the *Budget review*. The price gauge, measured by the CPIX index, has remained inside its target for nearly 3½ years.

All these measures of fiscal restraint - often criticised by government's more left-wing allies - have helped fund growing social reform, aimed at pulling an estimated half of SA's population of 47m out of dire poverty.

Social grants now reach nearly 12m people, with more than half of the past year's R81,24bn going towards child support. The total figure is set to climb to R107,7bn by 2009/2010.

One of the most ambitious plans in Manuel's 2007 budget outlined a mandatory, earnings-related social security scheme to provide improved employment insurance, disability and death benefits for dependants, along with a standard retirement savings arrangement.

To offset the cost of the tax for workers whose earnings fell below the income tax threshold, there would be a wage subsidy, Manuel said. The scheme would be run by the SA Revenue Service and implemented by 2010.

"The big challenge for us is the visible poverty trap - too small a percentage of poor people emerge with a sufficient pension to live off. The change in living standards is frequently traumatic," Manuel told reporters.

SA will also introduce in 2007 a national "poverty line" to monitor trends in living standards and meet the demands of social research. Early estimates from Statistics SA put the line at R322/person a month at prices based from 2000, which would show in a poverty rate of 53% for that year.

Manuel dismissed concerns that SA's swelling deficit on the current account - a country's broadest measure of trade - would dislodge the rand and disrupt the economy, saying continued strong capital inflows would cover the shortfall. The deficit grew to nearly 6% of GDP in 2006, and was likely to remain between 5% and 6% in the medium term, with imports outpacing exports.

"This is a sign of robust economic growth. And SA is not alone in this regard," Manuel said. But he acknowledged that steps had to be taken to improve the country's export performance, which has flagged on the back of relative strength in the currency.

In its *Budget review*, treasury said that lower oil prices, higher export volumes and a more competitive exchange rate would help keep the current account deficit in check. Export volume growth - estimated at just 3,9% in 2006 - was set to accelerate to an annual rate of 6% over the next three years.

Manuel acknowledged that the level and volatility of the rand's exchange rate - cited by a panel of Harvard experts as a possible growth constraint for SA - was being

examined in the context of other economic variables, but dismissed any thoughts of official intervention.

"The generally accepted view is that a floating exchange rate is the least bad - also the rand has depreciated quite significantly on a trade-weighted and a nominal basis, over the past year," he told reporters. On a trade-weighted basis, the currency has weakened by an average 15% over 2006 but at about R7/US$ now it is still trading well off its historic low of R13,85 reached late in 2001.

Exchange control rules were relaxed a bit further in the 2007 budget, with treasury also announcing plans for a local futures market in the rand - showing that despite its history of volatility, monetary authorities believe the currency can handle a bit of healthy speculation.

"Our view is that in a liquid market, speculation should not be disruptive - we are not completely adverse to speculation," said OlanoMakhubela, director of financial stability at treasury.

Under the new forex rules, SA companies involved in international trade can operate a single customer foreign currency account (CFC) for both trade and offshore services, and use it for a wider variety of permissible transactions. At present they must hold more than one account, which makes the process unwieldy and expensive.

Export proceeds can be held in CFC accounts for a maximum of 180 days and are seen by many bankers as the last major barrier to foreign exchange flows in the country. Makhubela said that research showed the time limits for CFC accounts were not restrictive as forex tended to remain in them for an average of 2½ months.

But analysts said government had missed a golden opportunity to liberalise foreign exchange controls more dramatically, which would have helped address the gaping current account deficit.

"The remaining exchange controls are not being dismantled, despite the persistent argument that the abolition will encourage the type of long-term investment interest

necessary to finance the current account deficit on the balance of payments," Brait economist ColenGarrow said.

But Reserve Bank governor Tito Mboweni confirmed talk that the central bank was considering lifting its interest-free cash reserve requirement for commercial banks, originally mooted as a way of restraining record credit growth in the country's economy - which the authorities see as a potential inflation threat.

Household debt as a percentage of disposable income rocketed to a record 73% late in 2006.

"An investigation is being undertaken by staff at the bank... we change reserve requirements from time to time, and what is likely to happen is a marginal increase in the reserve requirement which banks have to keep with us," Mboweni said. "That would lead to better management of liquidity in the market."

Manuel was coy about whether the twin goals of boosting growth to 6% by 2010 and halving unemployment by 2014 would be met. But Andrew Donaldson, deputy DG of public finances at the treasury, told the *FM* that they were achievable - provided bureaucratic red tape and regulatory burdens were removed, enabling exports to grow.

"One can't be too blasé - there's a sense that some important things need to be done first," he said.

The treasury's A team

The release last Friday of the second discussion paper on "Social security and retirement reform" is the culmination of almost three years' work by a high-powered team from national treasury.

Another three years' work - and, no doubt, manoeuvring and political infighting - will be required to finalise the many details needed before SA's radical overhaul of the social welfare system sees the light of day.

Negotiations with business and trade unions, to which finance minister Trevor Manuel has committed his department, will also add to the complexity and length of the policy reform. Compromises will undoubtedly be required.

Headed by the department's chief director of financial sector policy, Jonathan Dixon, the treasury team includes the director-generals of public finance, Andrew Donaldson, and tax policy, Ismael Momoniat, and SA Revenue Service head PravinGordhan.

National treasury DG Lesetja Kganyago oversees their activities and also heads the interdepartmental team that will plan and prepare for the reforms over the next few years. Manuel chairs the interministerial task team of treasury, labour, social development, health and the presidency that will make the ultimate political decision on whether to implement the policy.

Dixon, the main architect of the reform proposals, has been in his current post for three years, during which the main work of the discussion document was done. But this is not the only topic that has kept him busy - the financial sector charter, foreign exchange regulation and the setting of conditions for Barclays' takeover of Absa have been among many others.

He has been with treasury for nine years now. Only 35, Dixon has a business science degree from UCT and a master's in economics from the London School of Economics. He is a chartered financial analyst, too. Hardly the stuff that makes for left-leaning economics. Dixon matriculated from Jeppe High School for Boys in Johannesburg.

Critical to the work of Dixon's task team is the establishment of an official poverty line for SA. Currently, poverty level estimates are based on assumptions, says the *2007 Budget Review*. Stats SA has been tasked with researching a poverty line, defined as the "expenditure necessary to buy a minimum standard of nutrition and other necessities".

A lot of the team's work over the past few years built on a 2002 report by the committee of inquiry into a "Comprehensive system of social security for SA", which provided detailed insights into the shortcomings of the country's social welfare network.

It also provided a philosophical underpinning for the current work. The report pointed out that "by creating greater income security, the poor, who are currently trapped in survivalist and low-income informal work, become empowered to risk higher-return activities that can break their cycle of poverty..."

The 2002 report recommended a mixed financing method, with contributory and noncontributory elements, as well as the use of state and private-sector funding in the social security system.

Much of the practical work of government over the past few years has been on improving the delivery of social grants and weeding out rampant abuse.

Last year the SA Social Security Agency took over the administration and payment of social assistance grants from provincial and national departments. By centralising the grant payment system, government has already achieved greater efficiency and improved service delivery. The agency employs about 6 000 workers with a further 3 000 posts to be filled. It has a budget of R4,1bn for the 2007/2008 fiscal year.

A soft landing at 5% is good news

The latest GDP numbers, released this week, contain welcome news. Not only did economic growth last year remain at 5%, it accelerated sharply in the fourth quarter as manufacturers and miners took advantage of the modest fall in the rand to boost their exports. Judging from the slower growth in retail and wholesale sales, and faster growth in manufacturing and mining, it suggests that economic activity has shifted slightly away from the demand side of the economy towards supply, making for a better-balanced growth performance. GDP growth should also remain well supported by strong growth in fixed investment spending and higher exports, as they respond to the more competitive currency.

What is particularly pleasing about the statistics is that the higher economic growth rates are not accompanied by runaway inflation. This seems to confirm what many economists have long suspected: the recent rise in inflation has little to do with domestic output, but more to do with external supply shocks, namely high oil and food prices.

The 200 basis point rise in interest rates in the second half of last year will take a bit more time to take full effect, but it's already evident that the Reserve Bank has manoeuvred a very soft landing indeed. Most economists, as well as finance minister Trevor Manuel, expect growth of 5% or just under that this year, with inflation set to remain below the 6% upper target of the inflation target range.

This suggests that there is little cyclical stimulus the monetary authorities can apply to boost growth beyond current levels to government's 6% growth target. That extra bit will have to come from structural changes; and top of the list is greater labour market flexibility. Most of the jobs created over the past few years have been informal or in the agricultural sector. For companies to create more jobs, workers must be easy to hire and easy to fire.

ECONOMIC IMPACT

Enforcing our social duty

A national compulsory savings scheme will probably be good for the economy. But there will be losers, too.

It is the biggest reform of economic policy since 1994. By 2010 SA will have introduced a basic welfare safety net for the majority of the population. High earners will be expected to subsidise the social security of low-income earners; every employee will be forced to save for their retirement and insure themselves against disability and death. The state will also subsidise low-income workers and substantially widen the base of those who get pension grants.

The key thinkers behind the plan emphasise the gains to be had from a social security system in which all South Africans share responsibility for the weak. "The message we want to get across is that social solidarity is a crucial element of this plan," said finance minister Trevor Manuel last week.

"[Government policy is] not only about how we look after ourselves but how we look after each other, and the tax system has to reflect that," says SA Revenue Service head PravinGordhan.

Amid the lofty idealism, the reform has been mostly welcomed by economists. "SA cannot afford to divert its attention from the socio economic challenges it must address," says Standard Chartered's Africa economist, Razia Khan. "[Economic policy is] not just about growth, but savings and a social safety net."

SA already spends substantially on welfare. The cost of the new measures will depend on the details of the proposals - to be thrashed out by various departments, led by national treasury, over the next three years - but will undoubtedly be significant. Already, half of the total budget is spent on education, health and housing, a component that has grown by 16% every year over the past three years (see graph opposite).

In addition, almost 12m South Africans now receive social grants in one form or another, ranging from old-age pensions to disability and child support grants. Almost R70bn will be spent on social grants by government in the next fiscal year. A further R15bn will be spent by the three social security funds - the UIF, Compensation Fund and Road Accident Fund - though the funds also raise their own revenue.

Despite the exponential growth in social spending by government, it has not been enough to silence its left-wing critics. Their biggest call has been for a basic income grant for all South Africans. But after more than a decade of fiscal restraint and market-friendly policies, this set of reforms is seen as a big concession to the left-wing allies of the ANC, particularly the Cosatu trade union movement, as political pressures mount ahead of the next general election in 2009.

But, everyone agrees, now is the time to do it, given the robust state of government finances. The economic upside is also clear - it should force the country's profligate spenders to save, boosting investment levels, which remain low by international standards.

That in turn should help spur job creation and sustain faster growth in the continent's biggest economy - an outcome that should benefit everyone, rich or poor. At present, two out of three South Africans retire without a funded pension. Of those who do get one, more than half live on a quarter of their final salary. The international norm is 40%.

"There is socialist thought around it, but it's not necessarily a shift to the Left," says Stanlib economist Kevin Lings. "There is no doubt SA has a low savings rate, which is a problem for the economy. The scheme should make a pool of funds available for investment, allowing the private sector to step in when government's infrastructure spending drive slows."

The funds accumulated in the scheme will be managed by investment managers, though the mechanism for this is not yet clear. But they will be invested primarily in SA equities and bonds, which should stimulate investment in capital goods and infrastructure.

SA's economy grew 5% last year - keeping up a growth spurt begun the year before - and officials predict a similar pace of expansion over each of the next two years. But the main growth engine has been a consumer spending spree which has buoyed imports, widening the deficit on the country's current account - the difference between what SA imports and exports. The risk, though, is that the consumer engine stalls.

"I think overall the reforms will have a positive impact - they will stimulate savings," says Standard Bank economist ElnaMoolman. "Given the deficit on the current account and the need to finance ambitious investment spending programmes by government and the private sector, SA needs to raise its savings to reduce reliance on foreign capital inflows, in particular uncertain portfolio inflows."

SA's savings rate - which in economic terms equals investment - is woefully low. It has fallen to about 14,5% of GDP from 19,1% in 1990 - a trend which makes the official goal of boosting fixed investment to 25% of GDP look unattainable, at least in the near term. A history of political uncertainty coupled with growing materialism has fostered SA's "live for today" mentality, analysts say.

Household savings as a ratio of disposable income have also declined steadily from 2,63% in 1990, sliding into negative territory last year. This means that for the first time in history, SA consumers spent more than they saved.

The flip side of that coin shows that household debt as a portion of disposable income rocketed to a record 73% in the third quarter of 2006, rising from 54,3% in 1990. These are not healthy barometers for an economy where at least one in four adults lacks formal employment, and more than half of the population still lives in poverty.

Jonathan Dixon, who heads financial regulation at the t reasury, tells the *FM* that the jury is out on whether the new welfare reform will boost national savings - the aim was more to create cost-effective, suitable savings vehicles. The net impact on savings is difficult to determine, because compulsory savings may be substituted for existing savings.

But he adds : "In SA, you could make a strong case it will be more positive for national savings than in other countries. More appropriate vehicles for a larger number of people may create additional savings rather than substituting them for others." This seems a likely outcome. Existing pension fund contributors would lose the ability to cash in pensions when they switch jobs. Additionally, a large number of low-income workers will be compelled to save for the first time.

If the programme does result in a higher savings rate, it will have all sorts of economic effects. One is a fall in the marginal propensity to spend, with a consequent dampening of consumer expenditure in the short term - likely to be bad for retailers. Where they once blamed the national lottery and cell phones for displacing spending, now the social security fund will become the whipping boy.

According to a discussion paper that will be debated by a government team, labour unions and business representatives, contributions to the state-run social security fund will amount to between 13% and 18% of earnings after tax, up to a likely limit of R60 000/year. That means everyone with formal employment will put in R750/month.

Employees above that limit would still have to contribute that percentage of their total net earnings to an occupational or individual retirement fund, as most middle- to top-income earners do now. They would also have the option of adding to their state social security pension, which Dixon says would aim to provide returns of 40% of earnings at retirement. Lump sum removals when people change jobs, a practice that is common now, will be discouraged, though Dixon says provision will probably be made for a portion to be withdrawn for hardship.

People who earn less than R43 000 - where income tax kicks in - would have their social security contributions covered by a wage subsidy. This will cost the state R20bn-R30bn/year. Removing the means limit for the old-age grant will require another R4bn/year. However government may not shoulder the whole burden - it plans to cap the amount of retirement savings which are tax-free, and that level is up for discussion.

This has prompted worries that middle-income earners will end up paying more tax than at present.

"We don't want to see a new tax on the already highly taxed individuals of SA - it is not spelt out clearly anywhere in the discussion papers and we need a lot of consultation on that," says Gretchen Humphries, parliamentary officer for the white-collar union, Fedusa.

Predictably, labour federation Cosatu thinks the proposals do not go far enough, saying they must also address basic health care and a basic income grant for the unemployed.

"The long and short of it is we would want an engagement... with government of the entire package, not just retirees. What do you do with a 30-year-old adult who has never worked in his life?" says Cosatu's parliamentary representative, Neil Coleman.

Treasury officials have repeatedly rejected a basic income grant as unsustainable and likely to foster a culture of dependence, rather than job creation. Health insurance is on the cards but is still a long way off, given the depth of analysis required beforehand, Dixon says.

Government hopes that the wage subsidy will encourage companies to hire more people. Dixon certainly believes that the system will be positive for job creation and will "add to the incentives to formalise many informal jobs".

However, there is no appetite to tackle the bigger barrier to job creation caused by labour market regulation. As a result, it is difficult to see how the wage subsidy will not instead be merely a profit subsidy.

"Cost of employment is a factor, but labour regulations in SA are so numerous and complex that there are large incentives to minimise the workforce and thus reduce the burden of regulatory compliance," says Marco MacFarlane, researcher at the SA Institute of Race Relations. "This should not be billed as an employment-creation strategy. It is additional expenditure and social welfare."

Another concern is the administration of the scheme, which will cost money and put more pressure on a public sector already squeezed by a skills shortage and capacity constraints. There will also be scope for welfare fraud.

Fast forward

SA's economy accelerated strongly in the fourth quarter of 2006, keeping the pace of expansion during the year up at 5%. That's a notch above government's budget estimate of 4,9%, suggesting its goal of achieving 6% growth by 2010 is coming within reach.

Activity in the three biggest sectors of the economy - finance, manufacturing and retail trade - drove growth in the fourth quarter to 5,6% from 4,5% in the third quarter, according to figures released by Stats SA this week.

This kept SA's overall pace of growth near the 5,1% level achieved in 2005 - which was its highest in more than two decades. Consensus forecasts had predicted the economy would slow more sharply last year, to about 4,8%.

"The figures show SA's underlying economy remains strong even if household spending slowed - infrastructure spending is certainly supportive," said Absa Capital research head Jeff Gable. "Our sense is that economic growth in 2007 will be stronger than last year."

Finance minister Trevor Manuel has budgeted for the economy to continue to grow at an average rate of 5% over the coming three years - nearly twice the pace seen during the first decade of democracy.

The central bank's decision to hike its repo rate by two full percentage points in the second half of 2006, in response to rising inflation, has sparked concerns that growth will stutter, given that consumer demand has been the economy's main engine over the past few years. The latest GDP figures suggest otherwise.

The trade sector, which includes retailers, wholesalers, hotels and restaurants, made the third-biggest contribution to growth in the fourth quarter and expanded by 6,7% over the whole of 2006. Finance, real estate and business services - which account for a fifth of GDP - expanded by 8,3% during the year, while manufacturing grew by an annual rate of 4,8%. However, growth in manufacturing picked up strongly in the fourth quarter, rising by 8,3%.

JP Morgan economist Marisa Fassler says the manufacturing sector's growth rate is testament to the weaker rand, which has given exports a bit of an edge. The mining sector reported a strong fourth-quarter growth rate of 4,6%, as high commodity prices were given further impetus by the weaker currency.

"There are encouraging signs that the sources of growth are becoming more balanced. The healthy rise in mining and manufacturing production in the final quarter of last year suggests that the weaker rand is doing good work in stimulating supply-side activity, while higher interest rates have already had a modest dampening impact on consumer demand," Fassler says.

Construction continues to set a blistering pace, expanding by 13,3% in 2006, up from 11,9% the previous year. The sector accounts for less than 3% of the economy, but the data shows that government's infrastructure spending drive is having a significant impact. According to the plan, government will invest more than R400bn in roads, ports, railways and electricity over the next three years. Most of this will be funded by government, since Manuel produced the country's first budget surplus in history during fiscal 2006/2007.

Because the sectors that made the biggest contribution to growth in the fourth quarter - manufacturing, mining and financial services - are big generators of tax revenue, the figures also suggest the budget surplus next year may once again exceed government's estimate of a surplus of 0,3% of GDP.

Talk on a hot topic

There has been quite a hoo-ha in my extended family about letters finance minister Trevor Manuel received from two members of the public regarding lobola.

One letter wanted lobola to be tax deductible, while the other wanted Vat to be imposed on lobola. We all started to worry about my cousin Eric Mashatola, who was due to pay lobola last weekend, just days after Manuel's stirring budget speech.

Would we, the emissaries, have to constantly calculate Vat as we fought to bring the price of the lobola down? We know, after all, that the lady is highly educated, pretty and personable. And her negotiating team, the grapevine had told us, was said to be formidable. Having to do one's sums while faced with a rated opponent would prove to be distracting, I thought.

On the other hand, my uncle was worrying about how to go about asking for an invoice from his son's future wife's family so he could send it on to the SA Revenue Service motivating for a tax deduction. You can imagine this would challenge even the most diplomatic of negotiators.

These are vexing matters and, thankfully, Manuel found a way out of committing himself - at least for this year. "These issues seem far too complex for me or my officials to handle. I'm going to have to consult our elders on this one," he said.

Which made me relax somewhat on the eve of the trip, and decide to go out with my friends Jimmy Pavlou, a formidable entrepreneur, and his lovely wife Taryn. My lovely wife and Taryn agreed that Bukhara, in Sandton Square, it would be.

The last time I visited a Bukhara was way back in 2003 in Cape Town. You are always sure to get a glimpse of someone famous there. Kader Asmal, who made my heart sing just the other day when he gave public protector Lawrence Mushwana a dressing-down, was there. He'd had a go at Mushwana when the man started whining about the press and the opposition.

Alas, I did not enjoy my meal that day. The lamb was tough as teak and the nan bread was wan and sad. The beer was hot.

A good Indian meal can be a thing of wonder. One of the best I have ever had was in Cape Town way back in 1997, when former *FM* bureau chief Peter Wilhelm took me to a small restaurant just off Long Street for lunch.

Man! While we both sweated over our curries, Peter told me about a guy who used to go to the restaurant every week just so he could perspire. I know why. The food was hot - and good. And the beer was cold.

The beer at Bukhara last week was very cold, too. In boiling hot weather - it was 26,5°C outside at 11 pm - the Miller's was exactly what the doctor ordered.

And the place is packed. The nice thing about money - when it is evenly distributed - is that it enhances diversity. The clientele is All Sorts: black, white, Asian, local and foreign.

Taryn points out that the view is terrible, but we all agree that is what you get when eating in a tasteless shopping mall. But we are here for the food.

I go for the lamb vindaloo with rice; Jimmy has his favourite dish, tandoori chicken.

Now, my lovely wife and Taryn have to travel to India every so often on business. They have now confessed that, actually, it is not business they go for. All those trips to Mumbai have been for the palak paneer - spinach with cottage cheese!

They have not been to India for a while and have been gagging for some. So palak paneer and a prawn curry it is for them.

My lovely wife makes so bold as to say, as President Thabo Mbeki would put it, that the food is the best Indian cuisine she has ever had in SA. Jimmy and Taryn, who confess to having been to Bukhara more than 10 times, declare once again they have not been disappointed.

I agree, but have to demur on one point. The vindaloo is billed as "extremely hot" on the menu. I wanted "extremely hot".

Alas, it was hot, yes ; but extreme it was not. It came nowhere near to making me feel I had just been dragged through hot coals, which is what hot vindaloos have

done for me in the past. Look, it was very good and the meat was great quality, but it was not "extremely hot".

I will be going back.

Many bets steady the boat

A futures market should help reduce volatility in trading of the rand

Plans to allow South Africans to trade futures in the rand on the JSE have stirred lively interest among individuals and entities exposed to movements in the volatile currency.

But the new market is unlikely to generate large trading volumes initially, as only individuals will be able to speculate freely. Institutions will have to trade within existing exchange control limits, and companies will be barred.

A future is a commitment to buy or sell a standard quantity of a financial asset or commodity for a fixed price at a future date. It allows investors to try to protect themselves against unexpected price movements, or just take a bet.

There are already two places in the world where rand futures are traded: the Chicago Mercantile Exchange (CME) and Dublin's Finex, the currency futures and options division of the New York board of trade.

The new exchange may grab some business from the CME and Finex, as foreign entities will be able to trade without restrictions, like SA individuals. Domestic funds and asset managers will be able to trade under existing limits, which stand at 15% of retail assets for pension funds and long-term insurance companies, and 25% for asset managers and collective investment schemes.

"I view this step as part of the gradual liberalisation that government has committed itself to in terms of the exchange reforms," says Daniel Mminele, executive GM of markets at the SA Reserve Bank. "We can differ on whether this is a significant step, but the whole process shows a high degree of confidence in SA's economy and financial system."

Finance minister Trevor Manuel announced the decision in his 2007 budget speech in parliament last month. Since then, JSE trading director Allan Thomson has been swamped with queries.

"It is difficult to say how big it will be," says Thomson, "but there is large demand from the retail sector, from funds and from the farming community. We are expecting it to be a significant market over time. We have launched a number of products before and they have all had a slow start. This seems to be rolling in the door."

Thomson says the plan is to start cautiously, launching "mini" three- and six-month contracts worth US$1 000 on the JSE's Yield-X platform in May. Later, "maxi" contracts worth $100 000 will follow. "Ultimately we would like to market globally, but initially our focus is inward, aimed at the man in the street. If we feel there is enough demand and there are no major shocks to the currency, we will take the next step."

Mminele says a futures market should help reduce volatility in the rand, which has been cited by government as a constraint to growth. "There will be more depth, it will help liquidity and in the process reduce volatility."

Currency speculation used to be a dirty word in SA, after the rand's abrupt descent to a historic low of R13,85 late in 2001, and its almost equally dramatic recovery to a 6½-year peak at around R5,65 late in 2004.

But treasury officials said last month that a bit of speculation was not a bad thing - backing their view that the rand's level should be set by financial markets, without official intervention.

According to the Swiss-based Bank for International Settlements, the rand is the third most traded emerging-market currency in the world, after the Korean won and Mexican peso. Volumes have climbed in the past few years, with the average daily turnover in the rand at R12,6bn last October, up from R7,5bn in 2000.

But these figures may not tell the whole story, as the Reserve Bank can record transactions only when one of the parties is locally based. But it is clear that more than half the deals involve foreign players, and only 20% involve spot (immediate) transactions - the rest are forward transactions or swaps.

Because of its dual role as an emerging market and commodity-linked currency, the rand is volatile. That makes it difficult for businesses to plan ahead, particularly those that trade in dollar-denominated commodities, such as maize.

Says John Purchase, GM of producer organisation Grain SA: "Maize prices went from about R500/t in mid-2005 to R1 800/t now. They are determined by three factors - the international price, the rand, and supply and demand. We can already hedge for maize on Safex (the SA Futures Exchange) but rand futures could help farmers hedge better and take more of the volatility out of the market."

There are open interest contracts worth $650m on Finex, compared with $176m on the CME.

"Rand-dollar futures contracts have been trading offshore. This may facilitate some of them to come here - that would help the depth and liquidity of local markets," Mminele says.

The JSE will be the legal issuer of rand currency derivatives, while the market will be made by authorised dealers - banks with a licence to deal in foreign exchange. They will also be entitled to act as a counterparty of last resort.

"This means that no speculation will be allowed, and that they can only hedge exposures resulting from the actual deals by institutions and individuals," Mminele adds.

DEVELOPMENT FUNDING

Aid in the balance

SA's budget surplus could harm aid flows, particularly to local NGOs

SA's new era of budget surpluses could have the unintended consequence of harming the levels of development aid to the country - particularly aid directed at nongovernmental organisations (NGOs). In February finance minister Trevor Manuel budgeted for an R11bn surplus for the current fiscal year after he had brought down the deficit consistently in previous years.

Many donor agencies, countries and multilateral organisations - including the European Commission and the Organisation for Economic Co-operation & Development (OECD), representing the world's richest countries - have over the past few years begun to direct aid to the budgets of recipient states, rather than disbursing funds directly to lower tiers of government, NGOs, civil society or special projects.

This move to direct budget allocations was decided at a meeting of the OECD in Paris in 2005. It was resolved to channel funds to state budgets to better align development co-operation and aid with government s' priorities.

But now many donor countries are beginning to question whether it makes sense to give development aid to a country that boasts a surplus. According to some experts, many civil society organisations, particularly those dealing with HIV/Aids, education and other social development issues, fear that the SA government's surplus and the directing of aid to national budgets will cut them off from vital foreign aid flows.

This comes at a time when global aid to Africa has begun to stall, putting at risk the much-trumpeted Group of Eight (G8) commitment to double donor aid to Africa. In 2005 the G8 countries pledged to spend US$50bn more each year on aid until 2010.

An OECD report released last week shows that global aid to developing countries totalled $104bn in 2006. Though this was 5,1% up on 2005, excluding one-off relief to Iraq the amount would have been below 2005's amount.

SA was central to lobbying for the G8 package of aid, but will be less affected by the general decline of assistance to sub-Saharan Africa, given its historical reluctance to rely on overseas aid.

Earlier this year the European Commission and SA agreed on a draft aid strategy, which consisted of aid flows of €980m for SA between 2007 and 2013, says Hubert Perr, the commission's counsellor for development co-operation.

This represents no increase in real terms on the €886m for the previous six years, particularly given the level of social indicators in SA. "The bulk of the money will be directed to the national budget so that it can be aligned with government priorities," says Perr.

According to commission officials there are two main areas of focus for the new SA aid envelope: "Capacity building aimed at assisting SA with the delivery of basic services, and employment creation."

The commission package emphasises support for government programmes such as AsgiSA, the national economic strategy, and its policy to bring back expatriate skills. Regional integration will also be supported.

The direct allocation to NGO s will decline, though the commission says it will not completely cut off support for individual projects. It says these will remain valid, though the likelihood is that the allocations will follow the trend of aligning aid with government's stated priorities.

A former development aid co-ordinator for the European Commission in SA, argues that SA still has "a lot of development challenges". The commission, he says, felt that channelling the bulk of aid through national budgets " would increase aid effectiveness and address concerns that despite large aid flows, social indicators and poverty statistics had continued to worsen".

Centre for Policy Studies director Chris Landsberg says: "What the surplus shows is that SA does not have a crisis of resources - like other aid recipients in the region, for example Lesotho, Malawi and Zambia. Instead, it may provoke donors to

pressure SA to deploy its own resources more effectively towards its development needs."

In preparing what they called the People's Budget earlier this year, many SA NGO s challenged government on the issue of the budget surplus, saying that a balance needed to be struck between fiscal prudence and responsible spending on basic services and infrastructure.

They attributed the surplus partially to government's incapacity to spend and deliver on services needed by the poor.

SA has always been a unique case in terms of development needs. It is classified as a middle-income country, yet many of the donors make reference to the dual nature of the SA economy - consisting on the one hand of a highly developed economy and on the other of a chronically poor one. Aid has thus been about addressing SA's development backlog in the post-apartheid period.

The SA budget has classified foreign aid as an "add-on", and it has always been less than 0,7% of the total revenue budget. According to a seminar hosted by the national treasury last week, "in many African countries, foreign aid flows form a substantial part of the national budget, constituting in some cases more than 50% of total income".

What SA does have in common with aid-dependent states is that a lot of the aid exists outside the recipient country's budget planning process - leading to fragmented decision-making and hence a less than optimal allocation of resources.

SA NGO s fear that donors will channel funds to more needy countries - those without a large budget surplus - and that what little does come into SA won't reach them but go to Pretoria's coffers.

A seminar on aid effectiveness, held last week in Pretoria, concluded that "the ability to meet the UN's [anti poverty] Millennium Development Goals depends to a large extent on improving the quality of fiscal management, especially in an aid-dependent environment."

ZaneleTwala, executive director of the SA National Non-Governmental Coalition, says NGO s are already feeling the effects of declining direct aid. "Many of them have been closed, and even my organisation is threatened with closure.

"When foreign governments concentrate on directing aid straight to national budgets, the consequences for SA NGO s will be dire." Twala says government has demonstrated a lack of capacity to distribute development aid to NGO s. She adds that the National Development Agency - designed for these purposes - has been "dogged by internal problems".

In some instances donor countries have recalled funds that they have previously allocated for development funding and NGOs, citing the lack of capacity of government agencies to distribute and spend these funds. "This severely limits our capacity as NGO s to reach out to the poor," Twala says.

Landsberg says the NGOs' fears may be justified, given the volatility of aid flows and the "love-hate" relationship between government and civil society.

ShaheedRajie, chief director, international development co-operation at the national treasury, says levels of aid to SA "are at the moment pretty static". He says that most of the aid goes to support projects and sectors like education, and that a fair allocation goes to civil society.

Rajie says the 2005 OECD Paris declaration has not yet been fully "operationalised" and that SA is still awaiting the European Commission's final draft aid package. He says a draft document called the Country Strategy Papers, indicating future directions of aid policy towards SA, will soon be finalised. " Indications are that Brussels is still making adjustments to the document."

The final document is expected to be signed over the next few months.

Apart from the European Union, SA receives aid from individual EU countries, particularly Scandinavian nations. In total the EU and its members account for about 70% of aid to SA, but other developed countries are also large donors.

The UN Development Programme and the US government's USAID have provided aid, mainly in the form of humanitarian assistance, the promotion of small and medium enterprises and anti-HIV/Aids campaigns. USAID flows to SA have averaged just over $30m in 2005 and 2006, but this was substantially less than the $62m in 2004.

Henri Valot, head of the directorate on Millennium Development Goals at international NGO Civicus, explains that a lot of aid flows from the US have been re directed from poor countries towards "the fight against terrorism".