

The Three Tasks

What do the House of Lords and Old Mutual have in common? And how does that commonality influence investors?

Back in the early 1990s, after the release of Nelson Mandela and with the new SA looming, Old Mutual & Nedcor (as it was then known) sponsored a scenario exercise about different possibilities for the future of SA. It was an impressive exercise led by impressive people. During the deliberations and analyses of the scenarios three tasks were identified for a post-apartheid SA.

The first was to achieve a peaceful *political transition*. The second was to get the moribund *economy* going again. And the third task was identified as one of *social development*: overcoming poverty, creating enough jobs, delivering housing, water, sanitation and the basics of a modern life to as many people as possible. Politics, economics and social development.

That was in the early 1990s. Earlier this year at the House of Lords in Westminster, Mr Zuma addressed a cross-section of Lords. In answer to a question, he explained his approach to his duties as president. Mr Mandela was responsible for the *political transition*, he said, and made a success of that. Mr Mbeki was responsible for the resuscitation of the *economy* and made a success of that, Mr Zuma continued. His own task was *social development*. His focus must be education, health and poverty.

At Westminster, in 2009, Mr Zuma articulated precisely the same three tasks the Old Mutual scenario team outlined more than a decade and a half ago!

From traditionalism to modernity

At BoE we have described these tasks as SA's journey from traditionalism to modernity. It remains a journey, not a destination – certainly for our lifetimes.

The recent elections have again illustrated how far the country has come *politically*. In spite of dire warnings and predictions that SA was going the way of Kenya, and that violence was going to get out of hand, nothing of the kind happened.

I remember the telephone calls from European journalists last September when Mr Mbeki was recalled by the ANC. Their information was that the country was going to explode into violence, they said, and could I confirm it.....?!

The *economic* story remains one of consistent progress, as illustrated by the per capita income trends that we discussed with clients on the recent road show. No one can read the future, but with what I will call a “default” economic growth rate of about 2,5% to perhaps 3%, those trends should continue.

Two tasks achieved. That leaves us with *social development*. Here the priorities are clear: jobs (which will come from growth), crime, health, education, land reform.

It takes time

The problem with social development is that it takes time. Lots and lots of time. Unlike the political transition and economic resuscitation it cannot be achieved in a decade or so. We are talking about a generational task. And the results are much less visible. So be prepared for a body politic that seems unruly and unhappy – especially during winter, which is traditionally the season of wage negotiations.

Consolidation of economics

As an aside we can note that the Old Mutual/Nedcor scenario team propagated strong public spending financed through a higher budget deficit to achieve the above three tasks. Derek Keys was Minister of Finance at the time and, although sympathetic to the goals, was not too keen on higher deficit spending. The then Nedcor boss, Chris Liebenberg, succeeded Keys at Finance, and he in turn was succeeded by Trevor Manuel.

Manuel came to office with the currency crisis of 1996. The crisis was a salutary reminder that one cannot spend one's way into prosperity. Manuel did the right thing: he brought the deficit down and established fiscal discipline.

It took him about five years to achieve those goals. During that time he earned the scorn of many of his political colleagues and collected many knives in his back. But his approach worked.

By 2000 enough fiscal space had been created to increase government spending. Today SA is enjoying huge capital spending on infrastructure, an expanded public works programme and considerable poverty relief, thanks to economic discipline.

Stable politics, a growing economy (albeit slower than most people expect at our default economic growth rate of 2.5% to 3%) and social development. It seems to me we are moving into modernity, slowly but surely.