The Myburgh Commission:
Looking in vain for

The rand commission was set up by government following the dramatic drop in the value of the rand. ***John Pape*** *analyses the commissions' work (which is expected to cost government R25m) and its implications for workers.*

The fall of the rand by 37% in 2001 was the major economic media event of the year. This was not the first time the currency has crashed. But it is the first time a public commission has been appointed to investigate the issue of currency fluctuations. The Myburgh Commission, set up in February 2002, has a general mission of determining whether there were any illegal or 'unethical' activities that contributed to the decline in the value of the rand. Chaired by Justice John Myburgh, the commission took testimony from dozens of experts including economic consultants, business leaders, and officials from the Reserve Bank and commercial banks.

Most workers, indeed most South Africans, do not quite know what exactly makes the value of the rand go up and down. But there is a healthy suspicion that there is someone out there pulling the strings and making some money. The explorations of the Commission have taken some steps to confirm this.

Background to the Myburgh Commission

The origins of the Myburgh Commission supposedly stem from a letter written by Kevin Wakeford, the CEO of the South African Chamber of Business (Sacob) to President Thabo Mbeki in January 2002. In the letter Wakeford detailed information he had received from an unnamed but 'reliable' source that there had been conscious attempts by South African companies to drive down the value of the rand. Wakeford argued that these attempts should become the subject of a public investigation or commission.

Activities and achievements of the Commission

Perhaps the greatest success of the Myburgh Commission has been to open the secretive world of financial markets to the public eye. At least three important aspects of currency trading received considerable media attention. Firstly, there is the question of the staggering amount of money involved. Experts traced the ever increasing billions and trillions involved. By 2001 the daily global trade in currencies had climbed to $1.2 trillion (at the time about 9 trillion rand). Daily rand trading, while representing less than 1% of global values, rose from $2bn in 1992 to about $8bn in 2001. This means that in 2001, the weekly trade in rands was about equal to the entire South African government budget for the year.

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At least as surprising as the scale of trade was who was taking part. Some expected that some hedge fund in New York or a group of conspiring European speculators had devised a plan to drive down the value of the rand. But surprisingly, if there has been any finger pointing at the Commission it has been directed at local businesses and financial institutions. Some of the big players in rand trading include Standard Bank, Sasol, Cell C, De Beers, Anglo Gold. In April 2001, of the $11bn being traded in the daily rand markets, $8bn was taking place in South Africa.

Apart from shedding some light on the statistics and organisations behind

the smoking gun


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Right: Commission chairman John Myburgh with fellow commissioner Christina Quinta.

the trading, the Myburgh Commission has also given us some limited information on the how and why of currency trading. For example, a number of witnesses described in an asset swap of R2.5bn undertaken by Sasol and the German Deutsche Bank. Essentially in an asset swap, a local company trades local shares, which are denominated in rands for an equal amount overseas, which are held in a hard currency like Euros or US dollars. Asset swaps provide companies with a way of taking money out of the country without having to go through a direct trade in cash. It is the equivalent to a South African individual swapping a Chiefs soccer kit for a Manchester United kit with a person overseas.

In addition to bringing out information about speculators, the Commission also revealed much about the operations of the South African Reserve Bank. In a nutshell, the testimony demonstrated that at present the Bank has very little power or capacity to regulate the actions of currency traders. The Bank generally regards currency traders as important investors and appears very hesitant to take any action, which might scare them away.

Business' response

Many business people, particularly those involved in currency trading, have been very disturbed by the Commission. They have responded on a number of fronts. Firstly, many within the business community have attacked Wakeford. The business media have attempted to discredit his story and belittle his motives for making the appeal to Mbeki. Although one may wonder why Wakeford chose to go public with an unverifiable source, the efforts to undermine his credibility clearly smack of an effort by business to close ranks.

A second aspect of business' response has been to provide assurance that their international activities are not harmful to the value of the rand or the economy in general. In particular, there has been an attempt to defend the big corporations like Anglo American, Old Mutual, Gencor (now BHP Billiton) South African Breweries and De Beers who have moved billions out of the country to list on overseas markets and play a more global game. Big business in South Africa wanted to make sure that the Myburgh Commission would not lead to a restriction on their capacity to move their money around the world.

But the major thrust of business' response to the Myburgh Commission has been to blame the problems of the rand on the Reserve Bank and exchange controls. At present the Reserve Bank has very mild controls on movements of money in and out of the country. Major transactions (those involving hundreds of millions) do require Reserve Bank approval. However, much

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of organised business argues that such controls scare away investors. They cite the 14 October 2001 statement by the Reserve Bank where it threatened to enforce existing controls more strictly as the factor which led investors to sell rands, leading to the fall of the currency's value. Business' view is that the way to stabilise the rand is to abolish all exchange controls, thereby providing business with a complete free hand in moving their money around the world.

Analysis

The Myburgh Commission is very unlikely to find any evidence of illegal or unethical currency trading in their investigations. While their work has surfaced considerable interesting information, essentially they are asking the wrong questions. Global and local currency traders do not operate illegally or unethically. They are playing a game where all the rules are set up in their favour. A key component of globalisation has been the liberalisation of financial markets. Hence, rather than looking primarily for the one or two culprits behind the rand's demise, the Commission could have looked much deeper at the global economic structure.

Essentially there have been three sets of responses to dealing with the issue of global currency traders. The first response has been to focus on the regulations and systems in place in affected countries. In other words, the main factors behind the fall of currencies in South Africa or Indonesia are local corruption and incompetence. This is a line largely advanced by elements in the World Bank and the International Monetary Fund (IMF). For them the solution is capacity building in order to bring countries in Asia, Africa and Latin America into the world of 'good governance' and 'international best practice'. Their argument is that the free market simply needs to be made to work better.

A second response has been to develop a range of reforms of the global trading system in order to reduce the power of currency traders and others who invest in speculation rather than production. Reforms could include placing more controls on their activities. Countries like Malaysia, China and India have taken steps like compelling investors to keep their money in the country for a minimum period of time. A more elaborate reform proposal is the Tobin Tax. This initiative would place a service charge on every international investment transaction. The moneys raised from such a tax would then go to a global development fund, which would be used to create infrastructure and meet other basic needs in developing countries. At this point the Tobin Tax remains idea-based.

A third response has been to ask broader questions about whether a few tariffs or 'speed bumps' will be enough to make a difference. In their recent book, *Global finance: New thinking on regulating speculative capital markets*, Walden Bello, Nicola Bullard and Kamla Malhotra have argued for a more fundamental restructuring of the global economy, which would include the closure of institutions such as the World Bank.

In South Africa, labour and other social movements have also been grappling with these issues. The combined efforts of Cosatu, the South African Non-Governmental Organisation Coalition (Sangoco) and the South African Council of Churches in the Peoples' Budget Campaign have also tried to provide an economic policy alternative, which would redirect investment away from speculation and focus on production to meet the basic needs of South Africans.

Conclusion

The bottom line is that the Myburgh Commission has confirmed many workers' worst fears. The sad truth is that money held in workers' provident funds, as well as the profits earned through years of labour exploitation, is flooding into the global financial markets. The culprits in rand currency trading are not just overseas fund managers but local capital as well. Moreover, the calls from business for further financial liberalisation will just make it easier for big business to take their money to London or New York, leaving behind a falling rand and a trail of retrenched and underpaid workers from Polokwane to Cape Town.

Ultimately, the Myburgh Commission will not isolate the cause of the fall of the rand. They will find some of the underlying factors – instability in Zimbabwe or a quick and dirty trade by Deutsche Bank and Sasol. But there is a much deeper structural problem in the global economy, which must be addressed before currencies like the rand, or the Argentinian peso or the Thai baht will stabilise. LB

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